FINANCIAL INCLUSION IN FRAGILITY:

Wealth, Saving, Borrowing and Lending among conflict-affected populations in Iraq

Cash Consortium for Iraq (CCI)

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Authors: Rohan Jain and Nathalia Quintiliano

Reviewed by Pierre-Yves Malgorn.

ABOUT SREO

SREO Consulting is an independent, non-partisan research and monitoring and evaluation consultancy based in Istanbul, Turkey. SREO Consulting is committed to serving humanitarian and development actors operating in the most challenging environments around the world by providing unbiased and actionable data, analysis and research. The SREO team has experience working in Syria, Turkey, Iraq, Lebanon, Jordan, Tunisia, Libya, Yemen, Mali, Afghanistan, and Pakistan.

Contact: communications@sreoconsultingltd.com

ABOUT THE CASH CONSORTIUM FOR IRAQ

The Cash Consortium for Iraq (CCI) is a mature multi-donor, multi-program partnership that has managed over 160,000,000 USD in humanitarian and recovery funding since its formation in 2015.

The CCI is comprised of the Danish Refugee Council, the International Rescue Committee, the Norwegian Refugee Council, Oxfam, and Mercy Corps as lead. The CCI focus is on harmonized implementation at scale to meet basic needs and support the self-reliance of vulnerable populations with cash- and market-based approaches.

ABOUT OXFAM

Oxfam is an international non-governmental agency providing humanitarian assistance and support to people-affected populations across various countries. OXFAM has been present in Iraq since 1990 and resumed its activities after the ISIS offensive in 2014. Facing this protracted crisis, OXFAM's vision is to ensure that women, girls, boys and men affected by conflict in Iraq can access appropriate and equitable assistance that meets humanitarian needs and reduces underlying drivers of conflict at all levels. To achieve this vision, OXFAM Iraq is working in four sectors, namely: (1) Providing equitable and safe access to basic water sanitation and hygiene assistance and services; (2) Increasing access to food, emergency and sustainable livelihoods and income; (3) Protecting the civilians and their rights and; (4) Advancing gender justice and women's rights.

ACRONYMS

CCI	Cash Consortium for Iraq
FR	Field Researcher
GOI	Government of Iraq
HEA	Household Economy Analysis
IDP	Internally Displaced Person
ISIS	Islamic State of Iraq and the Levant
KIs	Key Informants
KII	Key Informant Interview
MPCA	Multi-Purpose Cash Assistance
MFIs	Microfinance institutions
ROSCA	Rotating Savings and Credit Associations
SME	Small or Medium-Sized Enterprise
SREO	Syria Research and Evaluation Organization

EXECUTIVE SUMMARY

Access to savings and credit are critical to households' resilience to shocks. By having access to useful and affordable financial products and services that meet their needs, households can use them to cope with crises and invest in pathways out of poverty. While by many macroeconomic measures Iraq may be among the least financially inclusive countries in the world, evidence suggests that a financial system exists that allows vulnerable households to access financial products when in need. Socio-economically vulnerable households in Iraq often bear the brunt of crises and engage with the financial system around them in order to survive and recover. Improving our understanding of the system that exists will enhance the effectiveness of future activities to support its reform. The purpose of this research is to expand the understanding of saving and borrowing among conflict-affected populations in Iraq. To achieve this, the research explores the saving, borrowing and lending behaviours and practices of households from different wealth groups in four districts in Ninewa and Anbar in early 2021.

For the purposes of this research, households have been classified into three different wealth groups, each with distinct characteristics. Classification of households into different wealth groups was informed by the findings of Oxfam's 2019 Household Economy Analysis (HEA) Baseline Assessment of Ninewa and Anbar governorates and by the preliminary "wealth breakdown" phase of this study. Profiles of saving, borrowing and lending practices in the sample were produced, including differences observed across different demographics and wealth groups. Key factors which influence these behaviours were considered in the broader context of the availability of both formal and informal financial services.

FINDINGS

For conflict-affected households in Iraq, informal financial service providers are key, with extremely low use of formal financial institutions. The financial sector in Iraq is composed of a variety of entities including both formal providers of financial services such as commercial banks and Islamic banks, and informal providers such as local shop owners and community saving circles. Unsurprisingly and in line with previous research, a very small proportion of respondents (3%) in the study had bank accounts. Ownership of a bank account was more prevalent among households that were wealthy, male-headed and returnees. Almost half of households in the sample saved money, mostly informally by way of storing cash at home, in gold or through saving circles. More than 30% borrowed money, almost all of whom borrowed from family, friends or a local shop owner.

There are severe supply-side and demand-side challenges for formal financial institutions due to issues of accessibility, suitability, desirability and trust. In terms of access, more than half of respondents reported an absence of formal financial institutions in their areas and reported their absence as a barrier to access. Also in relation to access, explicit and implicit criteria used by formal financial institutions to screen customers, such as documentation requirements like an ID card or business registration papers, can pose a barrier which excludes the majority of the Iraqi population, including most women, paperless people, and those employed by or operating unregistered businesses. In terms of suitability, there appeared to be a mismatch between the financial services demanded by households and those currently and generally on offer at formal financial institutions. Borrowing small sums to meet immediate survival needs appeared to be the top motivation for obtaining credit in this study and formal financial institutions offered fewer services in this regard. This mismatch may partly explain the low utilization of formal credit mechanisms by households. In terms of desirability and trust, respondents indicated many reasons for not utilizing formal financial services including a lack of trust in banks, a preference for dealing with personal relations, not finding formal financial services to be suitable for their needs and religious unacceptability of interest charges.

Saving circles and other community based saving and credit systems present an attractive alternative to formal financial institutions to meet financial needs. Given the substantial shortcomings of the formal financial system in Iraq in meeting the needs and desires of consumers, community based saving and credit systems present a useful and expandable means of facilitating borrowing and saving in the population. 18% of respondents have participated in a saving circle in the past, and 12% were doing so at the time of the study. Community based saving and credit systems appeared to be favoured due to the lack of stringent documentation requirements, simplified procedures, flexibility, adherence to Islamic principles, ease of access and the ability to participate with trusted groups of friends and family members. Much of the analysis in this report suggests that saving circles present an effective means for communities to organise and optimise their saving, borrowing and lending activities in the absence of an effective formal financial sector.

Saving behaviour, across wealth groups, is largely geared towards protecting or regaining a standard of living; people struggle to save because of low or unstable income and behavioural norms; and savings are typically stored in cash at home. 48% of respondents reported saving at least sometimes. Saving was more prevalent amongst wealthy households, but the top reasons for saving were the same across wealth groups - for emergencies (75%), for medical treatment (33%) and for shelter repairs (22%). There was a higher proportion of savers amongst female-headed households. The most common mechanism for saving across wealth groups was cash savings at home, employed by three quarters of respondents. For wealthy households, saving in the form of gold and foreign currency were the next most common whereas for poor households saving through saving circles and building on the house were the next most common. The respondents were asked both how they currently save and how they would ideally like to save and the differences in the responses suggests that at least a small portion of households is already interested in switching from saving cash at home or storing cash in gold to alternatives such as saving circles and Islamic banks. The most common reported obstacles to saving were related to low or unstable income, but finding it hard to stay disciplined was also considered a significant challenge.

Borrowing to meet basic needs, such as food, health and shelter, is prevalent and not a phenomenon limited to poor households. 31% of the sample were borrowers. Borrowing occurred in all wealth groups though was more prevalent among poor households than wealthy households. In terms of displacement status, IDPs appeared likeliest to borrow (52%), followed by returnees (35%) then host communities (23%). The needs met through borrowing differ by wealth group. Poor households typically borrowed to pay for food (63%) and utilities (23%), middle wealth households for food (46%) and rent (27%) and wealthy households for shelter repairs (24%) and medical care (21%). Some households in all wealth groups reported borrowing in the case of an unexpected emergency.

Borrowing by households is almost entirely informal and occurs within the community for all wealth groups, enabling households and businesses to borrow and lend without facing many of the key perceived shortcomings of financial institutions. Three quarters of respondents who reported that they borrowed, did so from a relative or friend, and almost half borrowed from a local shop owner, reflecting a high degree of usage of informal credit mechanisms. No other credit mechanism, such as a bank, the government or an MFI, was used by more than 3% of any wealth group. Borrowing from relatives or friends followed by borrowing from a local shop owner represented the most common means of borrowing in all wealth groups, but the former is more common amongst wealthier households, while the latter is more common amongst poorer households. This may be due to the differing reasons for borrowing, whereby poorer households tend to borrow to meet immediate needs, in which case it may be more efficient to simply buy those items on credit, whereas wealthier households are borrowing for larger expenses, so may need to elicit support from networks.

There are non-financial reasons that motivate lenders to offer credit within their community. In line with the importance of adhering to islamic finance principles, a very small proportion of respondents reported paying interest on their loans (1%). Many households (43%) reported that they sometimes lend knowing that they will not get the money back, stating that they do so “out of kindness”. Indicative evidence suggests that much of the lending in the target population may be as part of mutual support systems which exist to facilitate consumption smoothing between households with variable income.

Some businesses profit from lending even whilst remaining mindful of Islamic principles forbidding interest. While charging or paying interest is rare among the respondents due to the prohibition of *riba* (usury) in Islam, a few respondents described alternative mechanisms for lending profitably, such as charging more money for goods bought on credit and making equity investments as opposed to debt investments, which shows that it is possible for businesses to gain financially from lending even without charging an explicit interest rate. This may also suggest that vulnerable households may still be paying a price for credit even if interest is not explicit. The prevalence and characteristics of these practices should be explored further in future research.

RECOMMENDATIONS

Programme - Short Term

- Encourage budgeting and saving practice among vulnerable HHs to enhance resilience through financial education.
- Implement, strengthen or re-establish community-based saving and borrowing schemes, e.g. Jamiyah/Silfa/ROSCA.
- Consider pairing MPCA projects with a saving circle activity/project for recipients to create a holistic approach to boosting household resilience.
- Assist households with meeting the criteria necessary to access formal financial institutions.
- Raise awareness with formal financial institutions about the suitability and desirability issues with formal financial services currently on offer.

Programme - Medium-Long Term

- Restore trust of households in formal financial institutions through information sharing, dialogue and opportunities for collaboration between lenders in the community and formal institutions.
- Pilot an informal credit rating system for households and businesses that can be based on participants' reliable engagement in participatory saving circles.
- Consider Sinjar as a location of high priority for financial inclusion interventions.

Formal Financial Institutions (including MFIs), Government of Iraq and Donors

- Explore and provide, where possible, products that are accessible, suitable and desirable to consumers.
- Rebuild trust with consumers by collaborating with NGOs on support to community-based saving and borrowing schemes, awareness raising and training on Islamic financing.
- Consider piloting an informal credit rating system for households and businesses that can be based on participants' reliable engagement in participatory saving circles.
- Investigate opportunities to mitigate risk of lending to high-risk borrowers for formal financial institutions, for example through the government, development banks or donors willing to support financial inclusion by guaranteeing loans.

STUDY BACKGROUND

The Cash Consortium for Iraq (CCI) has provided multi-purpose cash assistance (MPCA) to beneficiaries in Iraq since 2015. In order to better understand the needs of beneficiaries and the broader finance environment in Iraq, the CCI has included research as one of its strategic priorities. Previous CCI research has revealed that MPCA recipients frequently use their cash grants to pay back debt or obtain additional credit.[1] Research has shown that debt and borrowing practices are widespread in Iraq, and predominantly occur through informal channels such as through family members or other community members.[2] Individuals in Iraq who obtain loans generally do so in order to meet immediate needs such as rent or food, and most frequently site obtaining loans due to insufficient income.[3]

Understanding saving, borrowing and lending behaviour has programmatic implications for the CCI. A better understanding of what different wealth groups tend to do with their cash and where their money ultimately goes could allow for more targeted MPCA programming which could optimize the benefits experienced by recipients. A clearer understanding of the strengths and weaknesses of available financing mechanisms in Iraq may be useful for supporting short term resilience, and also maximizing long term benefits of MPCA initiatives. Likewise, existing savings practices and credit flows could be taken into consideration in MPCA programming so that conflict affected communities can improve their quality of life and establish sustainable livelihoods. Factors that drive saving, borrowing and lending practices must be understood across different wealth groups in order to determine which demographics could benefit from tailored MPCA support.

LITERATURE REVIEW

A wide international literature exists on the saving, borrowing and lending practices of households in a variety of contexts, including developed countries, developing countries and conflict-affected countries. Saving, borrowing and lending constitute a crucial part of the economic health and resilience of communities at the local, regional and national level. At the micro level, saving, borrowing and lending help households to smooth consumption, navigate uncertainty and build resilient livelihoods. At the macro level, saving, combined with suitable credit mechanisms to facilitate lending, is necessary for enabling investment to grow the productive capacity of communities and countries.

A variety of factors have been found to impact (or at least display association with) households' saving, borrowing and lending behaviour in different contexts.[4] Demographically speaking, saving behaviour can vary with factors including (but far from limited to) household income; level of education; age; sector of employment; and household size. Individual households may be driven to save for a variety of reasons, including to smooth consumption; to maintain a financial buffer for emergencies; to pay for a large one-time expense; to invest in productive assets; or to retire. Borrowing behaviour can vary with a similar set of demographic characteristics and can be driven by an identical or closely linked set of motivations, for example to smooth consumption; to meet unexpected expenses in the event of an emergency; to pay for a large one-time expense; or to invest in productive assets. Lending may be driven by both financial and non-financial motivations, including as a means of humanitarian assistance for a borrower.[5]

1 CCI/DRC (2019)

2 UNHCR (2020)

3 Ibid

4 Costa-Font, J., Giuliano, P., & Ozcan, B. (2018)
House of Commons Treasury Committee. (2018)
Rocher, S., & Stierle, M. H. (2015)
Szekely, M., & Attanasio, O. P. (2000)
Rehman, H. ur, Bashir, F., & Faridi, M. Z. (2011)
Oxfam (2018)

5 CCI/DRC (2019)

Saving, borrowing and lending behaviours are also shaped by the availability (or lack of availability) of different types of saving mechanisms and credit mechanisms.[6] Formal financial institutions such as commercial banks often play a crucial role in securing savings and facilitating investment.[7] Where participation in the formal financial sector is weak and where integration of lower income households in the formal financial sector is low, however, savings are likely to be held in the form of cash and gold at home.[8] In unbanked populations, loans are often provided by informal networks of family, friends and local shop owners. In communities which lack access to formal financial institutions, community saving circles can be highly valuable as a means of facilitating saving and investment within communities.[9]

In certain contexts, lack of trust in formal financial institutions can also cause households to exhibit a preference for keeping savings at home or within the community rather than with banks. In the Iraqi context, a legacy of economic crises, corruption and banking collapses has left the population with little trust in the capacity of formal financial institutions to safeguard their savings.[10] On multiple occasions in the recent past, Iraqi banks have been looted, causing many savers to lose their savings. Widespread looting of banks occurred during the 2003 U.S. invasion of Iraq and more recently in Mosul during the 2014-17 conflict with ISIS.

The international literature on saving, borrowing and lending can serve as a guide to identifying key themes and avenues for analysis of the financial lives of Iraqi households, with studies from post-conflict countries, Islamic countries and countries with underdeveloped formal financial sectors being particularly relevant. However, research tailored to the Iraqi context is crucial for understanding the saving, borrowing and lending behaviour of Iraqi households specifically.

Given this, non-governmental organisations (NGOs) like Oxfam and other members of the CCI as well as international actors such as UNHCR have sought to generate more concrete, relevant and applicable evidence in the past few years to improve cash programming in Iraq. The studies conducted help paint a picture of the saving, borrowing and lending realities of vulnerable households in poorer communities of conflict-affected Iraq and their findings are referred to throughout this report. Broadly speaking, these studies point to an environment in which, for poor households, loans represent key lifelines which help address basic household needs such as rent, food, essential items and health. Loans are often made interest-free and even without expectation of repayment as part of an "informal social safety net" in which individuals lend to members of their social network who are in need of financial assistance, often stating that they do so out of kindness. Savings, meanwhile, are generally held in cash or gold and are kept in case of emergencies. The most relevant reports in this literature include:

- UNCHR: "Study on Impact of Debt on Internally Displaced Person (IDP), Refugee and Host Community Households, Iraq" (2020)[11]
- Cash Consortium for Iraq (CCI): "Household debt in Iraq: Borrowing in a time of crisis" (2019)[12]
- Cash Consortium for Iraq (CCI): "The Impact of Cash Transfers on Local Markets in Iraq: Lessons from Baiji and Rawa" (2019)[13]
- Oxfam, with UNDP: "Saving Behaviours and Financial Services in Northern Iraq" (2018)[14]

6 Ky, S., Rugemintwari, C., & Sauviat, A. (2018)

7 Wiyani and Prihantono, "Financing for the Poor: Between Formal and Informal Financial Institutions", Journal of Economics and Sustainable Development (2016)

8 Oxfam (2018)

9 Panne, V. Vande. (2018)

10 "Trust is a rare asset for Iraqi banks", 2020, Arab News. Online at: https://www.arabnews.com/node/1771711/business-economy

11 UNHCR (2020)

12 CCI/DRC (2019)

13 CCI/Proximity International (2019)

14 Oxfam (2018)

- Lebanon Cash Consortium (LCC): "Where's The Debt? Analysis of The Hidden Debt Network Sustaining Syrian Refugee Households in Lebanon" (2015)[15]

This study aims to build upon this literature firstly by considering some of the same questions from different angles and with a particular emphasis on understanding how saving, borrowing and lending behaviour varies between different wealth groups. For this purpose, this study uses a sample which contains not only poor households, who are typically surveyed by similar studies, but also middle wealth and wealthy households. By analysing saving, borrowing and lending in the population in parallel to one another, this study aims to provide a more holistic picture of households' financial lives. This study also aims to contribute to the literature by placing a particular emphasis on studying usage of different formal and informal saving mechanisms and credit mechanisms in the Iraqi population, including community saving circles. Finally, this study aims to build on the literature by providing up-to-date information on saving, borrowing and lending in Iraq, examining effects of recent phenomena including the COVID-19 pandemic and the December 2020 devaluation of the Iraqi dinar.

STUDY OBJECTIVES

This study had the following the objectives:

i. Understand the reality of saving and borrowing behaviours for individuals and households in conflict-affected communities in Iraq;

ii. Understand if and how saving and borrowing behaviours change for different demographics and wealth groups;

iii. Determine and analyse the most important subjective and specific factors that are affecting the saving and borrowing behaviours of households in the target population;

iv. Provide recommendations on how programming can support existing savings and credit flows and on the imrovement of savings and lending networks based on new social foundations. The recommendations will contribute to the provision of viable financial education and services that enable economically active, low-income and conflict-affected people to establish and develop projects generating income that help them establish sustainable livelihoods and improve their quality of life;

v. Update information and data on savings, borrowing, financing behaviours and the factors influencing them in Iraq. The findings derived from the reality of the target population will benefit stakeholders, current programming and strategies for rebuilding post-conflict societies.

STUDY METHODOLOGY

STUDY PHASES

This study was composed of two phases of analysis: the wealth breakdown and the main study. The wealth breakdown phase was carried out to generate accurate definitions of different "wealth groups" in the target population to facilitate analysis of the research questions during the main study. Both phases consisted of three basic components: 1) inception, 2) data collection 3) data translation, cleaning, and analysis.

The inception component for each phase included a thorough desk review and data collection tool development. Desk review for the wealth breakdown phase was centred on a review of

15 LCC (2015)

Oxfam's 2019 HEA Baseline Assessment for Ninewa and Anbar. Desk review for the main study included review of the main literature on household saving, borrowing, and lending in the Iraqi context, as well as review of the wider international literature on these topics. Prior to the beginning of the data collection component, field researchers were trained on methodologies, research standards and study-specific sampling.

The data collection component for the wealth breakdown involved collecting 17 key informant interviews over a period of one week. The data collection component for the main study involved collecting 772 in-person surveys and 35 key informant interviews over a period of four weeks.

Surveys were designed as XLS Forms and administered using KoBo ToolBox. The surveys asked household heads about their household's basic demographic information, income and expenditure, saving behaviour, borrowing behaviour, lending behaviour and financial literacy. The data translation, cleaning and analysis component included translation and review of data for completeness and quality according to SREO's data cleaning protocols. The quantitative dataset was also cleaned and checked for appropriateness in order to ensure optimal data analysis. SREO researchers then used R and Excel to conduct the quantitative analysis of the survey data. KII transcripts were analysed using MaxQDA.

SAMPLING

SREO researchers used a mixed methodology consisting of household surveys and key informant interviews during the main study. Sampling for the wealth breakdown component of the study is discussed in Annex B.

Surveys for the main study were collected in eight different locations across four districts in Ninewa and Anbar governorates. The study chose to focus on Ninewa and Anbar governorates for sampling given the relatively high degree of CCI activity in these two governorates. At the sub-governorate level, the study locations were, in Ninewa, urban Mosul, rural Mosul, urban Sinjar and rural Sinjar and, in Anbar, urban Ramadi, rural Ramadi, urban Qaim and rural Qaim. These locations were chosen to ensure representation of three degrees of urbanisation: rural areas (all four rural locations), towns (urban Sinjar and urban Qaim) and cities (urban Mosul and urban Ramadi).

In order to ensure adequate representation of households from all relevant wealth groups in the sample, the survey sample from each location was stratified according to the wealth group of respondents. In rural areas, stratification was facilitated by data from Oxfam's 2019 HEA Baseline Assessment, which disaggregates the rural population of different districts in Ninewa and Anbar into distinct wealth groups, giving an estimate of the population proportion accounted for by each wealth group in each district as well as the typical income level of households in each wealth group in each district.[16]

Because the 2019 HEA Baseline Assessment covered only rural areas, the wealth breakdown phase of this study aimed to estimate a similar set of wealth group population proportions and income ranges for different wealth groups in the *urban* areas considered in this study. These estimates were based on the responses of 17 "wealth breakdown" KIs in Mosul and Ramadi to questions about the proportion of their city's population accounted for by each wealth group and the income level of each wealth group. The process for estimating population proportions from the KII responses is described in more detail in the "Wealth Breakdown" annex of this report (Annex B). Meanwhile, income thresholds to define urban wealth groups in Mosul and Ramadi were calculated by averaging across the income thresholds reported by the 17 KIs. Given the consistencies between the population proportions and income thresholds reported by KIs in Mosul compared to in Ramadi, the assumption was made (at the stratification stage) that the two cities share common wealth group population proportions and income thresholds.

16 Oxfam. (n.d.-b). Oxfam HEA Study Report.

The findings from these 17 KIIs in Mosul and Ramadi were combined with the information from the 2019 HEA Baseline Assessment to extrapolate predictions about wealth groups in the towns of Sinjar and Qaim. The assumption was made that the towns of Sinjar and Qaim have the same wealth group population proportions as Mosul and Ramadi, but with wealth group income thresholds lying at the midpoint of the thresholds for rural and urban Mosul (in the case of Sinjar) and rural and urban Ramadi (in the case of Qaim). This assumption was intended to reflect Sinjar and Qaim's intermediate degree of urbanisation, which is less than that of large cities like Mosul and Ramadi.

Figure 1 below shows the stratification of the sample by wealth group in each location prior to data collection, while Figure 2 shows the income thresholds which were used to define each wealth group for the purposes of stratification. As is noted in the "Limitations" section, rural Sinjar and rural Qaim were not stratified as data-collection for these areas had not initially been planned due to feasibility concerns. It is important to note also that the income ranges used at the stratification stage differ slightly from those which were used to eventually classify households as "poor", "middle" and "wealthy" during main study analysis (this was because the income ranges used during main study analysis had the additional benefit of being informed by the main study data, which had been collected by that time).

Figure 1: Planned surveys per wealth group per location.

		# Surveys Per Wealth Group			
		Ninewa		Anbar	
		Mosul	Sinjar	Ramadi	Qaim
Total Population		1 361 800	40 630	223 500	74 100
# surveys: 770		300	85	300	85
Urban	Wealthy	51	20	51	20
	Middle	102	38	102	38
	Poor	72	27	72	27
Rural	Wealthy	8	0	11	0
	Middle	41	0	38	0
	Poor	26	0	26	0

Figure 2: Income ranges used for stratification of sample

Monthly Income Ranges (IQD)	Mosul		Ramadi		Sinjar	Qaim
	Urban	Rural	Urban	Rural	Urban	Urban
Wealthy	1,400,000 <	657,000 <	1,400,000 <	822,000 <	1,029,000 <	1,111,000 <
Middle	350,000 - 1,400,000	264,000 - 657,000	350,000 - 1,400,000	333,000 - 822,000	307,000 - 1,029,000	342,000 - 1,111,000
Poor	< 350,000	< 264,000	< 350,000	< 333,000	< 307,000	< 342,000

As is noted in the "Limitations" section below, this method of stratifying the sample in urban areas was based on indicative estimates of relevant statistics from KIIs rather than comprehensive census data and is therefore subject to error. Nonetheless, this method yielded results which were consistent with the expectations set by the HEA Assessment's rural wealth breakdowns and which were consistent across the two cities where wealth breakdown KIIs were conducted (Mosul and Ramadi), suggesting that the urban wealth breakdowns derived in this study are robust. Furthermore, possible under or over-representation of certain wealth groups in the overall sample should not affect the representativeness of estimates of statistics reported *within* wealth groups (e.g. "proportion of *wealthy* households who save money"), with which this study is largely concerned.

Data collection in all four urban locations was conducted in at least four (and up to fourteen) different communities selected by local field researchers (FRs) to include a mix of poor, middle wealth and wealthy communities. Data collection in all four rural locations was conducted in at least two different communities (with the exception of rural Mosul where data was collected only in Bashiqa). Within each community, SREO FRs followed a "random walk" method of sampling, with each FR walking a prespecified path through a community knocking on houses' doors at regular intervals and requesting surveys. Potential respondents were asked a screening question about their household income prior to being surveyed in order to determine within which income stratum they would fall. This method of finding survey respondents

generally continued until all income strata were filled. However, as is discussed further in the "Limitations" section, in some cases FRs were forced to rely on convenience sampling within communities to ensure all strata were filled.

The final sample included 28% female-headed households, as well as 6% IDP households, 29% returnee households and 65% host community/remainee households.

With certain limitations, the sample from within each location can be understood as representative of the population of that location. Furthermore, much of the analysis in this report considers data from across the eight locations jointly to produce estimates of population statistics. To the extent that the sample proportions of rural, town-dwelling and city-dwelling households mirror those in the combined population of Ninewa and Anbar governorates (which is not an unreasonable assumption), estimates produced using the whole of the survey data can be understood as representative of the combined population of Ninewa and Anbar. Under the further, more tenuous assumption that the combined population of Ninewa and Anbar can be considered representative of the entire population of Iraq, the estimates produced using the whole of the survey data can be understood as representative of the whole of the Iraqi population.

If the sample is taken as representing a random sample from the combined population of the relevant locations (an assumption which is discussed further in the "Limitations" section below), estimates of population proportions which draw upon all 772 datapoints in the sample can be taken as significant at the 95% confidence level with up to a 5% margin of error. Estimates at the *within wealth group* level (each of which draws upon a subset of the full sample of 772 datapoints) can be taken as significant at the 95% confidence level with up to a 10% margin of error. Most of the analysis in this study uses the above two type of estimates. Estimates at the *within location* level, meanwhile, in the cases of urban Mosul and urban Ramadi, can be taken as significant at the 95% confidence level with up to a 10% margin of error and, in the cases of rural Mosul, rural Ramadi, urban Sinjar and urban Qaim with up to a 15% margin of error. Finally, as is discussed further in the next section, estimates for rural Sinjar and rural Qaim are more indicative, significant at the 95% confidence level with up to 20% and 30% margin of error respectively.

KIIs for the main study were carried out in the four urban locations where data collection took place (urban Mosul, urban Ramadi, urban Sinjar and urban Qaim). Respondents were chosen to include a wide range of agents with useful information and insights on the topics covered by this research. Owners of small and medium-sized enterprises (SMEs) were interviewed to investigate the role local shop owners may play as creditors to their communities and to better understand the financing environment for businesses. Wealthy individuals were interviewed to investigate the role they may play as creditors to their communities. Representatives of commercial banks and MFIs were interviewed to gain information about the types of formal financial services available to households and businesses in Iraq, and the extent of availability to different segments of the population. Saving circle managers and participants were interviewed to better understand how community saving circles typically operate (in particular, relative to formal financial institutions) and the role they play as a saving, borrowing and lending mechanism in communities. Finally, local government officials, including *mukhtars*, were interviewed to gain overall insights on the financial and economic lives of the communities they represent. As well as being asked questions pertaining to their specific areas of knowledge, all KIs were asked several general questions about saving, borrowing and lending behaviours and mechanisms in their communities, so as to contextualise and triangulate the findings from the household surveys and other KIIs. The table below shows the number of each type of KII conducted in each location (all urban locations).

Figure 3: Breakdown of KIIs by location

Key Informants	City				Total
	Mosul	Sinjar	Ramadi	Qaim	
Wealthy Individuals	2	-	2	-	4
Bank Representatives	1	-	-	-	1
MFIs	2	-	-	-	2
SMEs	4	1	6	2	13
Saving Circle Managers	1	1	1	1	4
Saving Circle Participants	2	-	3	1	6
Local Government Representatives	1	1	1	2	5
Total	13	3	13	6	35

STUDY LIMITATIONS

KIIs:

- Although SREO had planned to carry out six KIIs with commercial bank representatives and two KIIs with Islamic bank representatives to gain an understanding of the operations of these formal financial institutions, only one of these interviews (with a bank representative in Mosul) was feasible. Resultantly, some of the information presented here about formal financial institutions' operations has been obtained via desk research rather than primary data collection.

Stratification:

- Given the lack of reliable statistics on the population proportions accounted for by different wealth groups in urban areas of the study, urban populations were stratified by wealth group using indicative estimates of wealth group population proportions produced from primary data collected during the wealth breakdown exercise. Inaccuracies in these estimates could prevent the samples from urban areas from being representative of the populations of these areas.
- Given the lack of an HEA wealth breakdown for rural Sinjar, rural Sinjar was treated as having the same wealth breakdown as rural Mosul (the nearest livelihood zone for which an HEA wealth breakdown is available).
- Given that rural data-collection in Qaim and Sinjar districts was not originally planned (due to feasibility concerns) but became possible at short notice, the samples for these two locations are small and unstratified, so estimates about these two locations are indicative.

Survey data-collection:

- While sampling *within* neighbourhoods aimed to follow a randomised method, selection of neighbourhoods for survey data-collection was not random. Rather, local FRs selected a representative mix of neighbourhoods in each study location while accounting for feasibility concerns regarding door-to-door data collection in different areas.
- Reporting bias: Respondents may answer with a social desirability bias, answering questions in the manner they feel is most socially acceptable rather than most truthful. Respondents may also be inclined to provide extreme responses to questions if they believe that conveying that they live in extreme poverty may result in assistance being provided to them by the enumerator's organisation (although this is unlikely in this case as survey respondents were not chosen as beneficiaries of any particular program and SREO enumerators were not accompanied by Oxfam staff).

- Selection bias: Given that households asked to take the survey were under no obligation to do so, many households refused. If the households who refused to take the survey are systematically different to households that obliged with regard to any of the variables asked about, this could bias estimates involving these variables. In some cases (e.g. amongst middle wealth and wealthy households in Qaim and Ramadi) the rate of refusal was as high as 90% (which reflects why it was crucial to ensure adequate representation of these groups via stratification of the sample).
- Given the low rate at which middle wealth and wealthy households agreed to spend their time taking the survey, up to 50% of surveys with middle wealth and wealthy households in Ramadi and Qaim were collected via convenience sampling within communities rather than using the random walk method set out above, with FRs calling upon local contacts to facilitate surveys. Although this type of convenience sampling could introduce new sources of bias, it may correct others by allowing SREO field researchers to survey households who might not otherwise have given their time to the study.

FINDINGS

WEALTH

Given that this study seeks to understand how saving, borrowing and lending behaviours vary between households in different "wealth groups", it is important to establish a working definition of the term "wealth group". It is also important to specify the typical characteristics of different wealth groups analysed in this study, and to establish a system for designating households to different wealth groups.

A "wealth group" is defined in this study not only by the asset or capital ownership levels of households within that wealth group, but, more broadly, by the total range of resources and opportunities these households can draw from to meet their economic needs. Under this definition, characteristics such as income and social networks, in addition to asset ownership, are definitive features of a household's wealth group. So, for this study, a "wealth group" can be understood as a collection of households with similar levels of access to economic resources and opportunities.

As has been discussed above, this study contained a "wealth breakdown" phase consisting of 17 KIIs and a review of Oxfam's 2019 HEA Baseline Assessment for Ninewa and Anbar. The wealth breakdown phase was carried out in order to address several important issues surrounding the concept of wealth. Firstly, as discussed in the "Sampling" section above, the wealth breakdown phase of the study informed stratification of the survey sample for the main study. Secondly, the wealth breakdown phase of the study was important for determining which variables could be used to distinguish different wealth groups from one another in an urban context (e.g. car-ownership). Finally, the wealth breakdown phase of the study provided a foundation not only for *characterising* the typical characteristics of different wealth groups, but also *classifying* households in the sample into different wealth groups, as is discussed below. More details about the wealth breakdown phase of the study are provided in the Wealth Breakdown annex.

The following section describes the typical characteristics of each wealth group in each location. After establishing the characteristics of each wealth group, households in the sample were classified into their respective wealth groups for analysis.

Characteristics of Poor, Middle and Rich Households (by Location)

In accordance with the HEA methodology, this study defined wealth groups at the regional (sub-governorate) level. In other words, for a household to be designated as "poor" in this study means that it is poor relative to other households in its region, such as within rural Ramadi, or urban Sinjar.

For the rural Mosul and rural Ramadi regions, wealth breakdowns have been borrowed from Oxfam's 2019 HEA Baseline Assessment for rural parts of Ninewa and Anbar governorates. This report provides wealth breakdowns for different "livelihood zones" within Ninewa and Anbar governorates, each of which is characterised by the prevalence of a particular type of agricultural production. Rural Mosul falls within livelihood zone IQ08 (defined by high wheat and barley processing), while rural Ramadi falls within livelihood zone IQ06 (defined by mixed crop vegetables and livestock). For the purposes of this wealth breakdown, rural Sinjar is categorized as belonging to the same livelihood zone as rural Mosul (IQ08), which is the nearest zone for which a rural wealth breakdown is available in the 2019 HEA Baseline Assessment, even though rural Sinjar is actually in livelihood zone IQ07 (defined by transitional moderate wheat and barley production mixed with sedentary pastoralism). Rural Qaim falls within the same livelihood zone as rural Ramadi. So, the rural Mosul wealth breakdown is also that used for rural Sinjar and the rural Ramadi wealth breakdown is also that used for rural Qaim.

The wealth breakdown tables below represent the different wealth groups present in each of these livelihood zones, as well as the key characteristics of each of these wealth groups.

Figure 4: Rural Mosul wealth breakdown (from HEA Assessment)

Mosul	Household Size	Land Accessed (dunums)	Land Cultivated (dunums)	Livestock	Income Source	Other	Monthly Income
Poor	6-8	0	no cultivation in the reference year	no livestock	daily wage labour / loans / safety nets	hand tools for farming	Up to 264,000 IQD
Middle	6-12	4-30	no cultivation in the reference year	2-65 sheep 0-1 cattle	daily wage labour / loans / safety nets / livestock/milk sales / labour	hand tools for farming / spraying machines	264,000-657,000 IQD
Wealthy	7-12	40-90	no cultivation in the reference year	40-80 sheep 0-4 cattle	livestock/milk sales / labour	car, spraying and harvesting machines	657,000 IQD and above

Figure 5: Rural Ramadi wealth breakdown (from HEA Assessment)

Ramadi	Household Size	Land Accessed (dunums)	Land Cultivated (dunums)	Livestock	Income Source	Other	Monthly Income
Poor	7-10	0-1	0-1	no livestock	daily wage labour / loans	hand tools	Up to 333,000
Middle	7-10	2-20	2-20	0-35 sheep 0-3 cattle	daily wage labour / loans / crop and livestock sales	hand tools / irrigation pumps / pipes / generator	333,000 - 822,000 IQD
Wealthy	8-10	10-30	10-30	15-70 sheep 1-5 cattle	crop and livestock sales	irrigation pumps / pipes / generator / harvesting machine / car	822,000 IQD and above

Whereas rural wealth breakdown tables could be borrowed from the aforementioned HEA Assessment, no such alternative existed for the urban regions in this study. Thus, wealth breakdown tables for each of the four urban regions were generated as a part of this study in two phases. The process of constructing the urban wealth breakdown tables is discussed more fully in Annex B, with the most important points about the process noted below.

The first phase involved analysis of "wealth breakdown KIIs" conducted in Mosul and Ramadi. The KIs' responses suggest that residents of both Mosul and Ramadi tend to view their city as containing three wealth groups: poor, middle and rich. The middle group was the largest of these three groups, followed by the poor and rich groups respectively. During this analysis, nine variables were extracted from the KIIs which the respondents broadly agreed are important distinguishing characteristics of a household's wealth group.

Subsequently, the survey data from the main phase of data collection was used to gain further insight into the values that these nine variables tend to take within different wealth groups in different locations (as described in Annex B). The tables below show the typical characteristics of households in each wealth group in each city, according to how households in the survey sample self-classified their wealth group.

Figure 6: Urban Mosul wealth breakdown

Mosul	Land ownership	Income source	Dwelling location	Food source	Education	Social networks	Assets: Car	Assets: Air conditioner	Monthly Income
Poor	No property	Daily wage	Poor neighbourhoods	Markets	Primary / Intermediate	Poor households	No car	No air conditioner	Up to 400,000 IQD
Middle	One property	Daily wage	Middle/poor neighbourhoods	Markets / Supermarkets	High school / University	Middle households	One car	One air conditioner	400,000-662,500 IQD
Wealthy	One property	Regular salary	Wealthy neighbourhoods	Markets / Supermarkets	University	Wealthy households	One car	Two or more air conditioners	662,500 IQD and above

Figure 7: Urban Ramadi wealth breakdown

Ramadi	Land ownership	Income source	Dwelling location	Food source	Education	Social networks	Assets: Car	Assets: Air conditioner	Monthly Income
Poor	One property	Daily wage / Regular salary	Poor neighbourhoods	PDS / Small shops	Intermediate / High school	Poor households	No car	Two air conditioners	Up to 475,000 IQD
Middle	One property	Regular salary	Middle/poor neighbourhoods	PDS / Small shops / Markets	University	Poor households / Middle households	One car	Two air conditioners	475,000-1,050,000 IQD
Wealthy	Two or more properties	Regular salary	Wealthy neighbourhoods	Markets / Supermarkets	University	Middle households	One car	Three or more air conditioners	1,050,000 IQD and above

Figure 8: Urban Sinjar wealth breakdown

Sinjar	Land ownership	Income source	Dwelling location	Food source	Education	Social networks	Assets: Car	Assets: Air conditioner	Monthly Income
Poor	One property	Daily wage	Poor neighbourhoods	Small shops	Primary / Intermediate	Poor households	No car	No air conditioner	Up to 328,750 IQD
Middle	One property	Daily wage / Regular salary	Middle/poor neighbourhoods	Small shops / Markets	Intermediate / High school	Middle households	One car	No air conditioner	328,750-1,375,000 IQD
Wealthy	One property	Regular salary / Business	Wealthy neighbourhoods	Small shops / Markets / Supermarkets	High school / University	Wealthy households	One car	No air conditioner	1,375,000 IQD and above

Figure 9: Urban Qaim wealth breakdown

Qaim	Land ownership	Income source	Dwelling location	Food source	Education	Social networks	Assets: Car	Assets: Air conditioner	Monthly Income
Poor	One property	Daily wage / Regular salary	Poor neighbourhoods	PDS / Small shops / Markets	No education / Primary	Poor households / Middle households	No car	No air conditioner	Up to 561,250 IQD
Middle	One property	Regular salary	Middle/poor neighbourhoods	PDS / Small shops / Markets	University	Poor households / Middle households / Wealthy households	One car	Two or more air conditioners	561,250-1,363,750 IQD
Wealthy	One property	Regular salary	Wealthy neighbourhoods	PDS / Small shops / Markets / Supermarkets	University	Poor households / Middle households / Wealthy households	One car	Two or more air conditioners	1,363,750 IQD and above

After defining wealth groups in each city, researchers assigned and classified households into each group.

Wealth Classification of Households

This study used self-reported household income to classify households into different wealth groups. Households were classified as "poor", "middle" and "wealthy" depending on which group's income range their household income self-report fell within. The income ranges which were used for this classification exercise in each location are those which are set out in the wealth breakdown tables above, which in turn were calculated, as described in the Wealth Breakdown annex, by considering the differing income levels of households in the sample who reported themselves to be "poor", "middle wealth" and "wealthy".

Although a number of different variables (those set out in the wealth breakdown tables above) were used for *characterisation* of different wealth groups in each location (i.e. to a create a picture of a typical household in each wealth group), income alone was used for *classification* of households in the sample into different wealth groups for several reasons. While the dynamics of wealth and the characteristics which distinguish wealth groups from one another vary from location to location, income is one of the few variables which is useful for distinguishing between the three wealth groups in all eight locations. Therefore, classification by income represents a method of classification which is meaningful across all of the eight locations sampled in this study (i.e. rural and urban areas in four districts). This means that, when used throughout this report, the terms "poor household", "middle wealth household" and "wealthy household" have the relatively clean conceptual interpretation that a "poor household", say, is a household with relatively low income compared to other households in its location, whatever this location may be (e.g. urban Qaim or rural Mosul). Furthermore, within the survey sample, classification based on income aligns very closely with households› self-classification of wealth group, indicating that the method is robust. The rationale behind this method of classifying households into wealth groups is discussed further in the Wealth Breakdown annex. For the purposes of consistency across regions, the two intermediate wealth groups in rural areas (i.e. the "poor" and "middle" groups) have been merged to produce a single "middle" group. Although this consolidation of wealth groups means some of the subtlety provided by the 2019 HEA Baseline Assessment is lost, it ensures that households in all eight locations can be classified according to a shared "poor", "middle", "wealthy" typology.

Defined as above, the survey sample for this study contained 241 poor households, 301 middle wealth households and 226 wealthy households.[17]

FORMAL FINANCIAL INSTITUTIONS

As described by USAID, "the Iraqi [formal] financial sector is comprised of a variety of institutions which … operate within formal financial markets and are supported by a financial infrastructure consisting of payments and settlement systems within applicable legal and regulatory frameworks." According to this definition, institutions which can be described as "formal" providers of financial services include commercial banks (both publicly and privately owned); Islamic banks[18]; certain private sector employers; and the government.[19] In addition to these institutions, microfinance institutions (MFIs) provide Iraqis with a "middle way" between formal institutions and unregulated financial service providers.[20] Although MFIs do not necessarily operate within formal financial markets, they exhibit characteristics of formal financial institutions in that they are regulated by the law and benefit from legal protections, although these protections do not always provide support in practice. For the purposes of this report, MFIs are included in the category of formal financial institutions.

The following subsections focus on formal financial institutions in Ninewa and Anbar governorates from a supply perspective, an accessibility perspective and a demand

17 Due to data entry errors when inputting income, four households were not classified. Although these households cannot be analysed as part of any wealth group, their data remains relevant in analysis of the overall sample (i.e. when the sample is not disaggregated by wealth group).

18 See "Islamic Finance" box

19 USAID (2011), "State of Iraq's Microfinance Industry", https://pdf.usaid.gov/pdf_docs/PA00HPH5.pdf, p. 11

20 Ibid, p.11

perspective, primarily using local perceptions to study these topics. The "Supply Side" subsection discusses the geographical distribution of formal financial institutions within Ninewa and Anbar and the types of formal financial institutions present. The "Accessibility" subsection discusses the implicit and explicit criteria which formal financial institutions use to screen users. Finally, the "Demand Side" section discusses the strength of demand in the population for formal financial institutions. Because formal financial institutions can offer both saving and credit mechanisms, analysis of specific saving and credit products offered by these institutions is left for the "Mechanisms" subsections of the "Saving" and "Borrowing" sections respectively.

The Supply Side: Operations of Formal Financial Institutions

Presence of Formal Financial Institutions in Ninewa and Anbar

Study participants were asked whether or not formal financial institutions such as banks, Islamic banks and MFIs are present in their communities. With the exception of rural Mosul, at least 50% of the respondents in each region answered "no", while no more than 19% of the respondents in any region answered "yes". The exceptionally high proportion of rural Mosul respondents answering "yes" (56%) could be an indication that formal financial institutions have an extremely strong presence in rural Mosul, but more likely is a result of previously discussed limitations in the sampling methodology. However, the fact that urban Mosul exhibits the second highest "yes" proportion of the regions suggests that Mosul may indeed lead the four districts in the presence of formal financial institutions (likely a legacy of Mosul's history as Iraq's commercial hub).

Figure 10: Reported presence of formal financial institutions by region

Presence of formal financial institutions	No	I don't know	Yes
Rural Mosul	28%	16%	56%
Urban Mosul	60%	21%	19%
Rural Ramadi	70%	27%	3%
Urban Ramadi	80%	10%	10%
Rural Qaim	50%	50%	0%
Urban Qaim	65%	24%	11%
Rural Sinjar	53%	47%	0%
Urban Sinjar	68%	32%	0%

The average percentage of respondents answering "yes" for an urban area was 10%, while the average percentage answering "yes" for a rural area was 15%. This latter proportion is skewed, however, by the exceptionally high proportion of rural Mosul respondents answering "yes"; in the three other rural regions studied, the percentages reporting "yes" were well below the urban average of 10% (rural Qaim: 0%, rural Sinjar: 0%, and rural Ramadi: 3%). This suggests, as past research would lead us to expect, that the presence of formal financial institutions is stronger in urban areas than in rural areas.

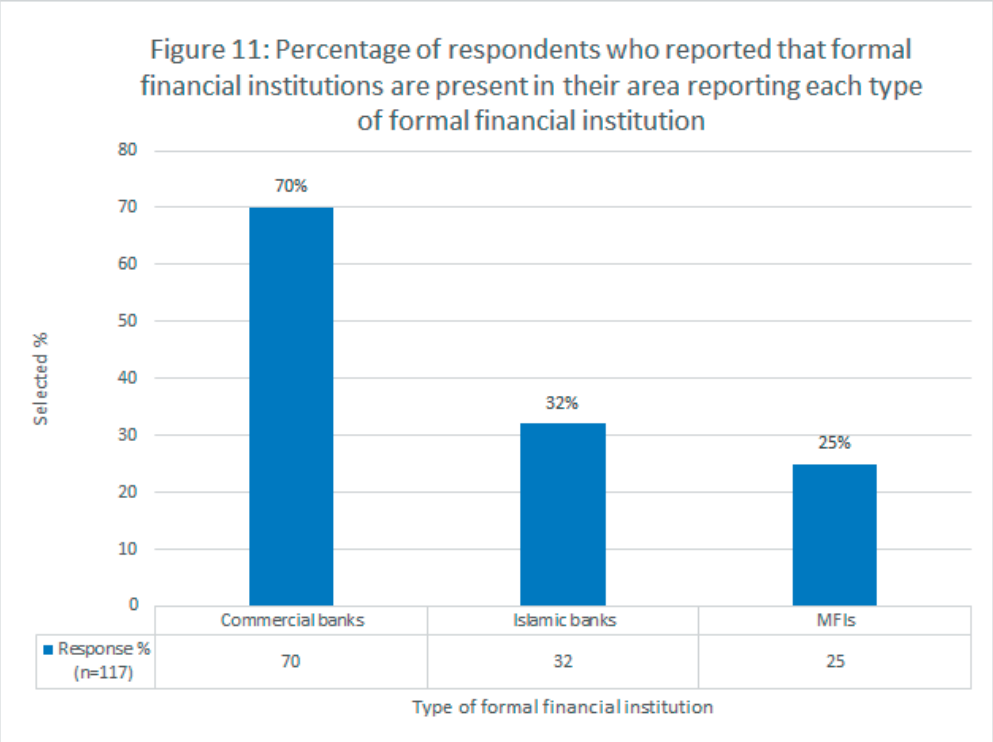
These results also suggest a gap between the more populous, well-connected districts of Mosul and Ramadi, and the more isolated border districts of Sinjar and Qaim. Of the eight regions considered in this survey, all three in which no respondents reported knowledge of formal financial institutions in their area were in Sinjar or Qaim, accounting for three of the four regions considered in these two districts.

These findings were largely corroborated by the KII respondents, particularly regarding this last point on inter-district gaps in financial inclusion. While the majority of KIs interviewed in Mosul and Ramadi reported that formal financial institutions are present in their city, most respondents in Qaim and Sinjar explicitly stated that there are no such institutions currently active in their city. An owner of a small or medium sized enterprise (SME) in Qaim, for example, stated when asked if he could access formal financial institutions: "No, I can't because support is completely unavailable here. If you go to Baghdad or Ramadi, you would find such loans available, but here, in the western region, there aren't any." Several respondents in Qaim also noted that formal financial institutions were active in their district prior to the beginning of the conflict with the Islamic State of Iraq and the Levant (ISIS) in 2014, but have been inactive since then. A local government official, for example, stated that "before 2014 there was lending and borrowing, our banks were giving money for agriculture and industry, but after 2014 there is nothing, everything disappeared."

These findings are unsurprising since prior research has indicated that certain areas of Iraq have been left behind by the post-ISIS reconstruction initiatives, creating a "forgotten Iraq›› consisting of regions whose needs have not been appropriately addressed by the Iraqi government and the international community.[21] In keeping with this literature, this study suggests that there is a strong need for formal financial service-provision to return to Sinjar and Qaim to facilitate the reconstruction of these districts' economies.

Types of Formal Financial Institutions Present in Ninewa and Anbar

All 117 survey respondents who reported that formal financial institutions are present in their area were then asked to specify *which* institutions are present.



A majority of these 117 respondents reported that commercial banks are present in their area, including majorities in all three districts where at least one respondent reported the presence of formal financial institutions in their area (Mosul, Ramadi and Qaim). Minorities of these 117 respondents reported that Islamic banks and MFIs are present in their area, although a majority of these respondents in Ramadi (but not Mosul and Qaim) reported the presence of Islamic banks and a majority of these respondents in Ramadi and Qaim (but not in Mosul) reported the presence of MFIs.

21 Hafsa Hawala (2020), "The Forgotten Iraq", Middle East Institute Policy Paper

The relatively strong presence of commercial banks compared to other types of formal financial institutions is confirmed by the KII respondents, who mostly referred to "banks"[22] when asked about the formal financial institutions present in their cities. The relatively weak presence of formal Islamic financing institutions could explain some of the religious reservations and desirability issues KII respondents and survey respondents expressed about using formal financial institutions, a point which is discussed further in the "Mechanisms" subsection of the "Borrowing" section of this report.

Accessibility of Formal Financial Institutions

Criteria for Screening Customers

This section considers the various criteria individuals and businesses in Ninewa and Anbar must meet in order to be able to obtain a loan from a formal financial institution. Some of these criteria are "explicit"; these criteria are formally specified and constitute any given formal financial institution's official criteria by which customers should or should not be served (e.g. documentation requirements). Other criteria are more "implicit"; these criteria arise as a result of informal rules and biases which formal financial institutions, or individual staff members, follow when assessing potential customers.

The explicit criteria customers must meet to be served by a formal financial institution can include some or all of those set out in the table below. Which of these requirements must be met in any particular case will depend on factors such as the type of service being requested (e.g. saving account vs. personal or business loan); the amounts of money involved; and the specific financial institution in question. The table below also sets out which groups within the population any particular criterion is likely to exclude from formal financial institutions.

Figure 12: Explicit criteria used by formal financial institutions to screen customers

Criterion	Description	Excludes
Personal documentation	Iraqi personal documentation includes what two KIs in Mosul referred to as the "four golden official documents" (or the "golden square"): Civil Status Card, Iraqi nationality document, residence card, and ration card.	The "paperless people" of Iraq, such as those who lost their papers whilst fleeing their homes, those whose papers were confiscated by armed actors during the conflict and those whose papers were issued by ISIS and are now worthless.[23]
Business documentation (for business loans)	Documentation required for a business loan can include formal registration papers for businesses.	The majority of Iraqi businesses are not formally registered, meaning they cannot meet this requirement.[24]
Property documentation (where relevant)	Documentation of property from which a business is being run, including title deeds and papers showing registration of the property with the bank, may be required for business loans.	This requirement, like the above, may discourage businesses operating informally from dealing with banks.

22 Inferred to be commercial banks.

23 Norwegian Refugee Council (2019), "Paperless People of Post-Conflict Iraq"

24 COSIT (2019), "Assessment of the Labour Market & Skills Analysis: Iraq and Kurdistan Region-Iraq", p.12

Criterion	Description	Excludes
Proof of stable salary from government or a registered company	For personal loans, debtors may be required to provide proof of a stable salary in the form of a letter from their employer, which must be either the government or a registered private sector company.	This requirement excludes women without regular employment (the majority of Iraqi women) from interacting with formal financial institutions without the support of a male guarantor. Furthermore, this requirement excludes people working in the informal sector (the majority of the Iraqi population) and those who earn a daily wage rather than a regular salary.[25]
Guarantor (for loan products)	Borrowers may be required to provide details for a guarantor who must meet certain criteria such as being a state employee.	This requirement excludes potential borrowers who do not have a suitable guarantor in their social networks (which is likely to be particularly true of poor households and small businesses). It is worth noting that the Ministry of Labour and Social Affairs (MoLSA) currently operates programmes to guarantee loans for some borrowers.
Collateral (for loan products)	For larger loans, applicants must put up collateral, often in the form of property, with interest rates decreasing in the amount of collateral put up.	This requirement excludes individuals who are not wealthy enough to put up sufficient collateral to secure a loan.
Feasibility study (for business loans)	Applicants for business loans may be required to submit a feasibility study.	This requirement may make the application process for a business loan too time-consuming and resource intensive for some businesses to afford.

Many of the criteria listed in the table above, when applied by formal financial institutions, exclude the majority of the Iraqi population, and women in particular, from access to formal financial institutions. To improve the population's access to formal financial services, these services will need to be made available according to criteria which are more reflective of the realities of the Iraqi economy, in which formal female labour force participation is low; informality is common; and in which many workers earn a daily or irregular wage rather than a regular salary.

With regard to implicit criteria, although the data for this study does not allow strong conclusions to be drawn, it is possible that deficits in access to formal financial institutions amongst certain groups, such as women and youth, are a result of both explicit and implicit criteria imposed by formal financial institutions.

Access by Demographic Group

To gauge the extent to which different demographic groups are able to access formal financial institutions, the analysis below discusses how survey respondents' answers to the question "Do you have a bank account?" vary based on respondents' gender, age, displacement status and wealth group. Particularly in light of other findings in this study, whether or not an individual has a bank account is an imperfect measure of their *access* to formal financial services as it may also reflect their *demand* for formal financial services. This also does not

25 Ibid

account for access to non-bank formal financial institutions. In the overall sample, only 3% of households reported having bank accounts.

By Wealth Group

Of the wealthy respondents in the sample, 9% reported having a bank account, while 1% of middle wealth households and 0% of poor households did. These results are entirely consistent with the broader findings of this study and others like it which suggest a household's wealth group is a key determinant of saving, borrowing and lending behaviours. Wealthy households' relatively high use of formal financial services (relative to other subgroups of the population) is explored further in the discussion of saving and borrowing mechanisms later on in this report.

By Gender of Household Head

While 3.7% of male-headed households reported having a bank account, only 1.9% of female-headed households reported the same, despite female-headed households in the sample disproportionately residing in Mosul (a legacy of the 2014-17 conflict with ISIS), which also accounts for a disproportionate number of households reporting having a bank account. This suggests a gap in access to formal financial services between male and female-headed households, which is particularly concerning given the later-discussed possibility that female headed households may save more than male headed households and therefore may have a greater need for saving mechanisms. When asked if women face additional barriers to accessing formal financial services, roughly equal proportions of men (26.2%) and women (25.2%) answered "yes". Less than half answered "no" in each case.

By Age of Household Head

None of the households in the sample with a household head aged 18-30 reported having a bank account, while 4% of household heads aged 31-40, 3% of household heads aged 41-50, 3% of household heads aged 51-60 and 6% of household heads aged 60+ reported that they did. This suggests that there may be a gap in access to banking services between younger and older members of the population. When asked if youth face additional barriers to accessing formal financial services, 47% of survey respondents answered "no", while 20% answered "yes".

By Displacement Status

Identical proportions of remainees and IDPs in the sample reported having a bank account, at 2.7%, compared to a higher proportion of 4% amongst returnees. The observed result that returnees are more likely to have a bank account than remainees and IDPs is consistent with other findings in this study. Notably, this study found that returnee households in the sample on average have higher income than remainee populations and IDPs. This could be the case because returnees are households who had sufficient economic resources to leave their cities of residence, while remainees might not have. Alternatively, even if returnee and remainee households started off with equal economic status, it is possible that the economic condition of remainee households declined relative to returnees during the conflict due to extraction of assets by armed actors and possibly loss of life and injury.

The Demand Side: Demand for Formality

The findings of this study suggest that formal financial institutions in Iraq have a problem not only with *accessibility,* but also with *suitability, desirability* and *trustworthiness*. As used here, the term "suitability" refers to the extent to which the services offered by formal financial institutions meet households' and businesses' needs from a purely financial perspective (e.g. whether the sizes of the loans on offer align with what is demanded by households and businesses). "Desirability", on the other hand, refers to the extent to which the services offered by formal financial institutions are sensitive to the non-financial preferences of households and businesses (e.g. aversion towards dealing with interest on a religious basis).

Problems with the suitability, desirability and trustworthiness of formal financial services are all discussed in more detail further on this report in relation to the saving and borrowing preferences of households and businesses. However, it is worth briefly outlining these problems here.

Services offered by formal financial institutions appear to not be suitable to the financial needs of many households and businesses. For example, many respondents report that their financial affairs (e.g. amounts saved and borrowed) are not large enough to justify interaction with formal financial institutions. This could be partly due to the time costs and fees associated with dealing with formal financial institutions. Many respondents also report that they and their peers are put off from using formal financial services by the non-adherence of the financial sector to principles of Islamic finance. This represents a desirability issue. Furthermore, many survey respondents state that they lack trust in formal financial institutions. This is unsurprising given events in Iraq's recent history such as the looting of banks all over the country during the 2003 U.S. invasion and the looting of Mosul's banks during the 2014-17 conflict, which lead many to question the stability, security and liquidity of Iraq's banking system. Given Iraq's weak regulatory environment, issues of desirability and trust may interact with one another to make some members of the population unwilling to deal even with financial institutions which claim to adhere to Islamic principles. One KI in Mosul, for example, reported that "even Islamic banks take profit, which is a matter of doubt."

In a context where there is a premium on flexibility, transparency and low transaction costs, the rigidness and opaqueness of Iraq's formal financial institutions serves to restrict demand. To bring more Iraqis into the formal financial system, formal financial services will need to be adapted to meet the needs of the population by improving availability of Islamic finance options, increasing flexibility, improving accessibility to the informal sector and reducing transaction costs. As is discussed later, these goals may be best served by bolstering the Iraqi organisations most capable of meeting them, including MFIs and semi-formal rotating savings and credit associations (ROSCAs).

SAVING

This section discusses the saving practices of households in the sample, with "saving" understood here as the practice of setting aside a portion of household income to not spend on immediate consumption.

Islamic Finance

The Qur'an prohibits followers of Islam from dealing with riba, which literally translates as "increase" and refers to the trading of liquid or fungible assets (most pertinently, cash) at a price higher than their value. Different interpretations exist of precisely which financial transactions are forbidden under this principle but, broadly speaking, prohibition of riba means that borrowing and lending with an explicit monthly or annual interest rate (in the manner that most commercial banks issue debt) is unacceptable to many Muslims.

Two main categories of "Islamic financing" mechanisms offer Sharia-compliant means for profitable lending of assets to occur. The first of these categories consists of profit and loss-sharing models for investment in businesses (including Mudarabah and Musharakah investments). The second category consists of more debt-like means of lending including Murabahah lending, a form of cost-plus financing which involves buyers paying a markup for goods purchased on credit relative to the price which would be paid for an upfront purchase.

In Iraq and across the Islamic world, numerous "Islamic finance institutions" exist to facilitate Sharia-compliant borrowing and lending using mechanisms such as those outlined above. Islamic financing remains a niche, although fast-growing, industry in Iraq.

The analysis looks at the prevalence of saving amongst households in the sample, the reasons for which households choose to save money and how households' saving decisions have been affected by different shocks in recent years. The barriers that households face to saving money were also assessed. Finally, the discussion ends with an analysis of the extent to which different saving mechanisms are used by households in the sample, what might explain the popularity of some saving mechanisms and the implications usage of different saving mechanisms may have for investment in local economies.

Prevalence of and Reasons for Saving

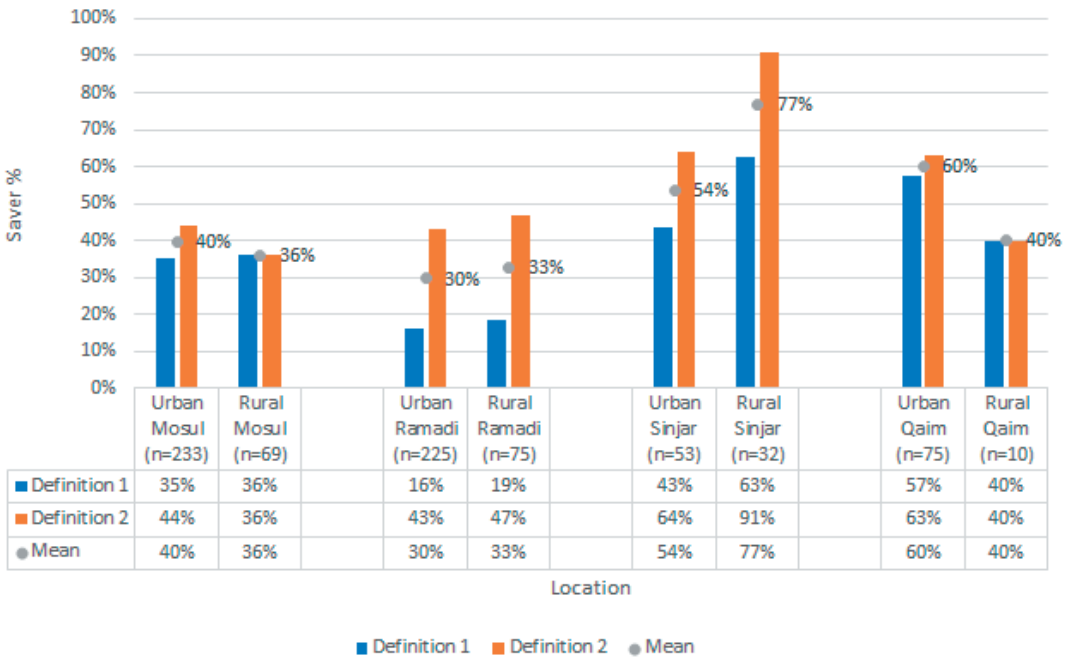
Prevalence of Saving

To understand the prevalence of saving amongst surveyed households, this analysis considered two definitions of what it means for a household to be a "saver", each with different merits. Definition 1 provides a point-in-time method of classification, with any household which answered "yes" to the question "Does anybody in this household currently save money?" being designated a saver. Definition 2, on the other hand, includes any household who reported that they save income for at least a few weeks during the year, even if the respondent answered "no" when asked if their household is *currently* saving money. This second definition of saving is largely absent from the literature, but is of high importance, particularly for service delivery. This more holistic definition of what it means to be a "saver" could provide a more accurate picture of who in the population could benefit from savings interventions than that provided by point-in-time definitions of saving.

The analysis below considers the prevalence of saving in the sample according to both definitions, disaggregated by location and several household characteristics. In the overall sample, 32% of respondents are savers according to Definition 1, while 48% of respondents are savers according to Definition 2.

By Location

Figure 13: Percentage of households in each location who save money according to each definition of being a "saver" (mean of both definitions represented as dot)



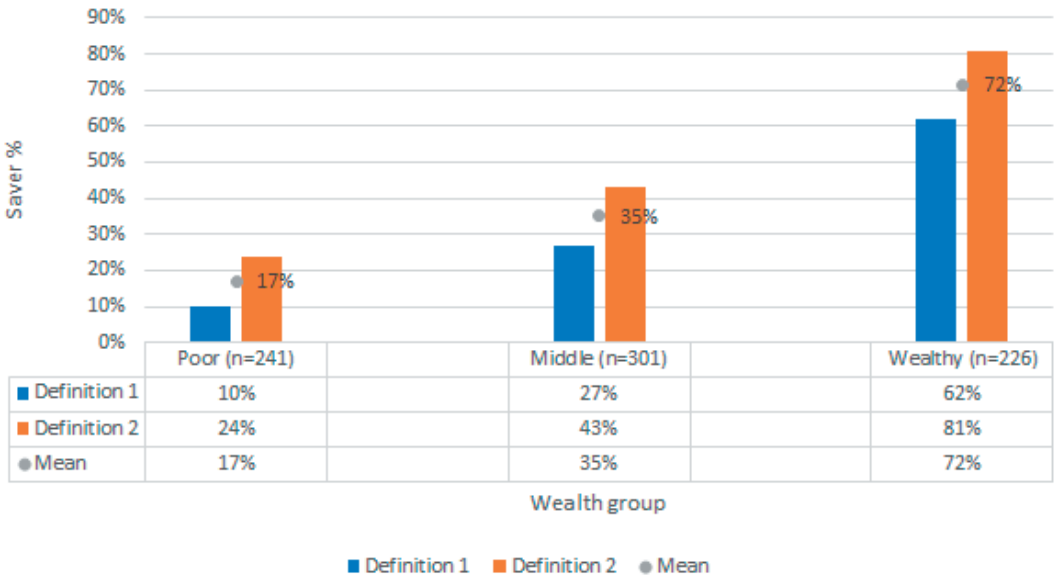
	Urban Mosul (n=233)	Rural Mosul (n=69)	Urban Ramadi (n=225)	Rural Ramadi (n=75)	Urban Sinjar (n=53)	Rural Sinjar (n=32)	Urban Qaim (n=75)	Rural Qaim (n=10)
Definition 1	35%	36%	16%	19%	43%	63%	57%	40%
Definition 2	44%	36%	43%	47%	64%	91%	63%	40%
Mean	40%	36%	30%	33%	54%	77%	60%	40%

In all locations, except for rural Mosul and rural Qaim, the second definition of saving gives a larger estimate of the proportion of savers in the population than using the point-in-time estimate (Definition 1). While only 14% of households in the sample reported that they "normally save (most months in the year)", 20% reported that they "save part of the time (a few months in the year)" and an additional 14% reported that they "rarely save (a few weeks in the year)". A remaining 52% of respondents reported that they "never save". The fact that these "sometimes savers" and "rarely savers" account for the majority of savers in the sample suggests that these are important groups to keep in mind when planning savings interventions, especially insofar as their needs may differ from those of the "normally savers".

Additionally, of the eight locations which were sampled, the four locations with the highest proportions of savers by Definition 1 were all in Sinjar and Qaim districts which also hosted three out of the four highest proportions by Definition 2. Although this may be partly driven by sampling limitations in rural Sinjar and rural Qaim, the relatively high rates of saving in urban Sinjar and urban Qaim could suggest that saving is more common in these relatively isolated districts compared to Mosul and Ramadi districts.

By Wealth Group

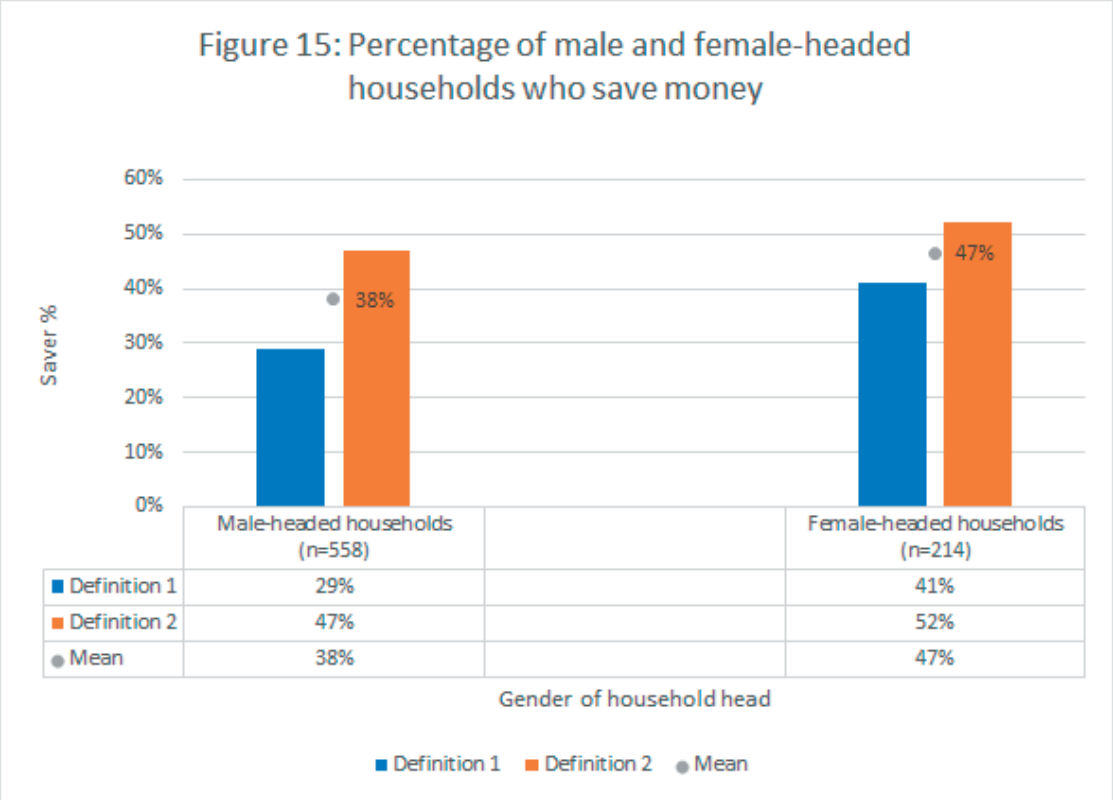
Figure 14: Percentage of households in each wealth group who save money



	Poor (n=241)	Middle (n=301)	Wealthy (n=226)
Definition 1	10%	27%	62%
Definition 2	24%	43%	81%
Mean	17%	35%	72%

As would be expected, the prevalence of saving varies substantially between wealth groups, increasing from the poor to the middle to the wealthy group. Whereas only 24% of poor households report saving at any point during the year, the vast majority of wealthy households (81%) report doing so. To contextualise this finding, it is worth noting that, as expected, household expenditure also tends to be higher for wealthier households in the sample. The mean monthly expenditures of poor, middle and wealthy households in the sample were IQD 305,000; IQD 573,000; and IQD 1,012,000 respectively. This suggests that the extra income that wealthy households have relative to middle and poor households goes partly towards extra saving, but also largely towards extra consumption.

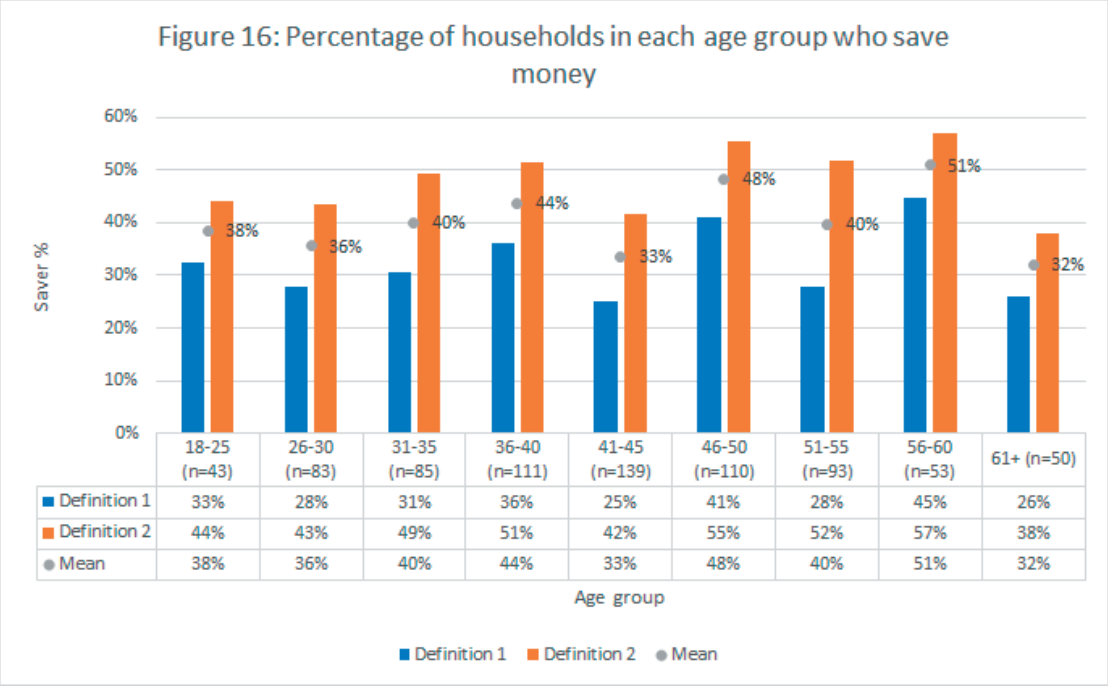
By Gender of Household Head



These results suggest that female-headed households may be more likely to save money than male-headed households. Although authoritative research is lacking on the topic of gender differences in savings in the Iraqi context, an economics professor interviewed in Mosul as part of this study answered, when asked about female access to credit mechanisms, that, in Mosul, "women save more than men if they are employees and have salaries."

The existence of a gender gap in savings could be viewed as consistent with studies conducted in other countries which have found that unconditional cash transfers are more likely to be spent on children's education and health (compared to, say, vices such as sugary foods) when they are received by women than when they are received by men.
Broadly speaking, the combined results of these studies could suggest that women are more likely than men to spend unconditional cash transfers in ways conducive to building resilient livelihoods (such as saving money for the future). If this is the case (with future research being needed to determine whether it is), a strong argument may exist for gender-targeting of cash transfers, either to female-headed households, or to women in male-headed households. Indeed, evidence from CCI staff suggests that in many households, even when a man is present, the responsibility of formulating a household budget is already assigned to a woman given the greater familiarity of female family members with the household's needs and how to best allocate spending.

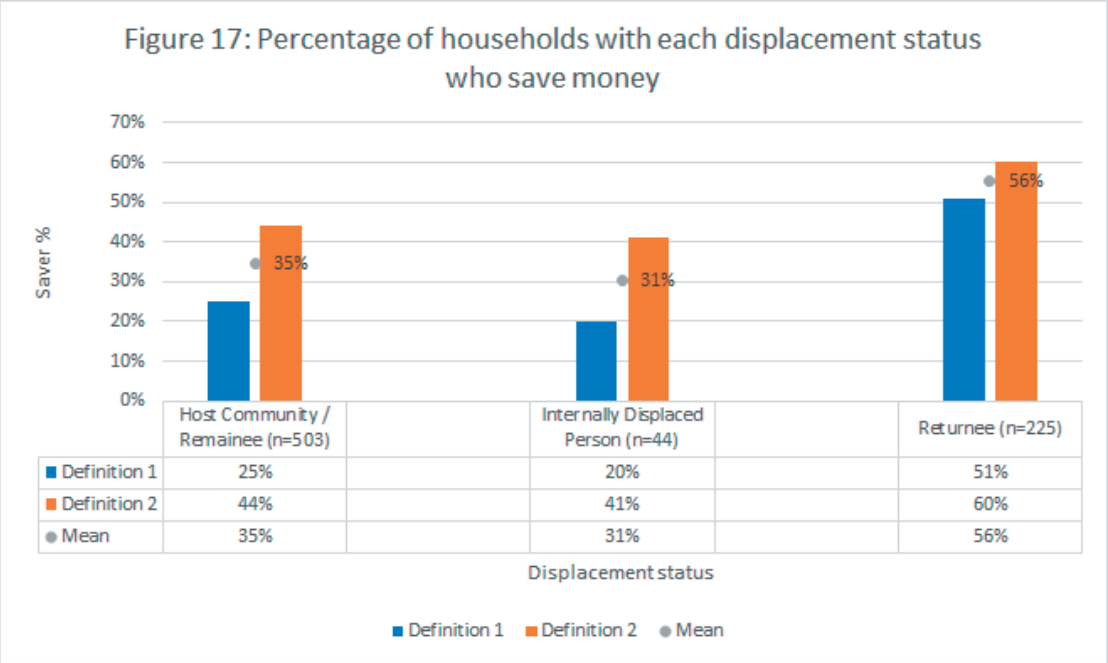
By Age of Household Head



	18-25 (n=43)	26-30 (n=83)	31-35 (n=85)	36-40 (n=111)	41-45 (n=139)	46-50 (n=110)	51-55 (n=93)	56-60 (n=53)	61+ (n=50)
Definition 1	33%	28%	31%	36%	25%	41%	28%	45%	26%
Definition 2	44%	43%	49%	51%	42%	55%	52%	57%	38%
Mean	38%	36%	40%	44%	33%	48%	40%	51%	32%

The results above do not show a clear pattern to the differences in prevalence of savings between age groups. Consistent with the life-cycle model of savings, in which households save during their prime earning years and dis-save during old age, prevalence of saving (according to the mean of the two definitions) is lowest in the oldest age group, at 32% in the 61+ age group. However, the next lowest prevalence of saving is in the 41-45 age group, during which respondents would be expected to still be working. So, the results shown above are far from uniformly consistent with the life-cycle model.

By Displacement Status



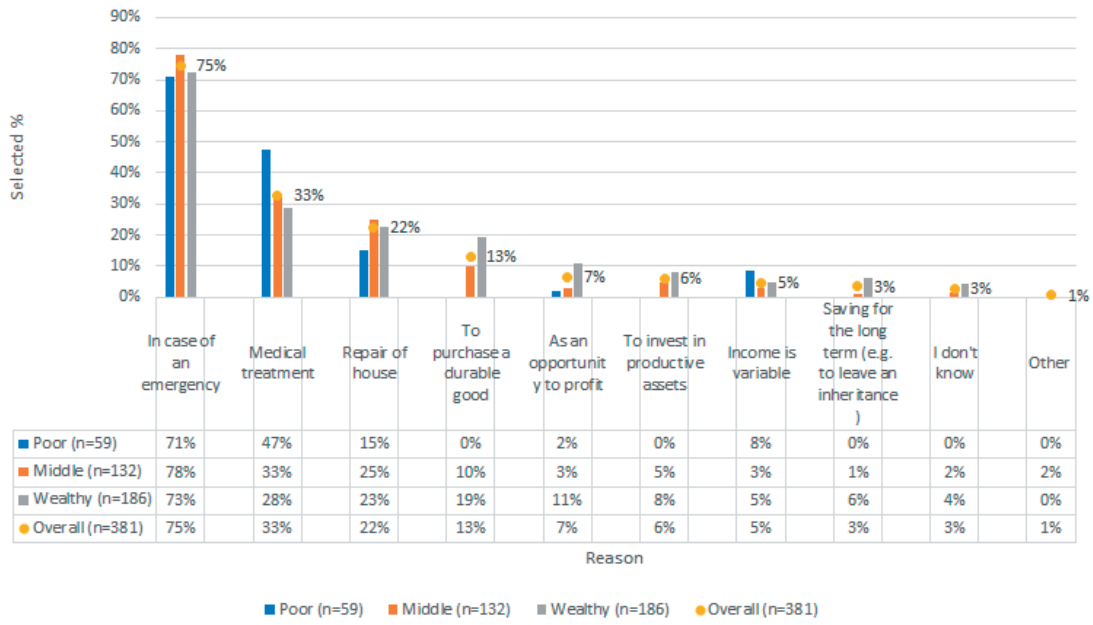
	Host Community / Remainee (n=503)	Internally Displaced Person (n=44)	Returnee (n=225)
Definition 1	25%	20%	51%
Definition 2	44%	41%	60%
Mean	35%	31%	56%

These results show that returnees in the sample are more likely to be savers than both remainees and IDPs by at least 15 percentage points by any definition. By both definitions, prevalence of saving is lowest amongst IDPs in the sample. These gaps may not be caused directly by a difference in saving behaviour driven by displacement status per se, but rather by the previously noted fact that returnees in the sample, on average, have the highest income, while IDPs have the lowest.

Reasons for Saving

All 381 households who reported that they save money at some point during the year were asked the question "What do you save money for? (Select all that apply)". Given the centrality of wealth to the research objectives of this study the graph has been disaggregated to show the percentage of savers *in each wealth group* selecting each option.

Figure 18: Percentage of savers in each wealth group who reported each reason for saving



The most frequently selected reason for saving in the sample was "In case of an emergency", with a large majority of respondents (75%) mentioning this as a reason for saving. The fact that respondents were offered, but rarely selected, more general reasons for saving such as "Saving for the long term (e.g. to leave an inheritance" and "I don't know" suggests that respondents have conceptual clarity that they are saving for a possible emergency when they select this option (rather than simply selecting this option because they are not saving for something specific). The result that saving in case of an emergency is by far the most common reason for saving in the sample may partly explain why savers in the sample typically keep their savings in the form of cash at home, as is discussed further on.

The second and third most common reasons for saving in the sample were to pay for medical treatment and house repairs respectively, followed by saving for the purchase of a durable good. Saving for the purposes of investment appears to be low, with only 7% and 6% of respondents respectively selecting the options "saving as an opportunity to profit" and "saving to invest in productive assets". As is discussed further in the "Saving Mechanisms" subsection, lack of investment of savings may have negative implications for local economies, particularly ones which are struggling to rebuild productive capacity following the 2014-17 conflict.

Although the first, second and third most common reasons for saving are identical in each wealth group, the results suggest that wealthy households are more likely than poor and middle wealth households to save for the purposes of investment, purchasing a durable good

and for the "long term". Whereas the top three reasons for saving can be understood as ones which enable households to *protect* or *regain* their past standard of living, investment, durable goods purchases and saving for the long term can be understood as activities which allow households to *improve* their future standard of living. In this sense, while households in all wealth groups save primarily to protect or regain their previous standard of living, some households in the wealthy group are also saving to improve their standard of living.

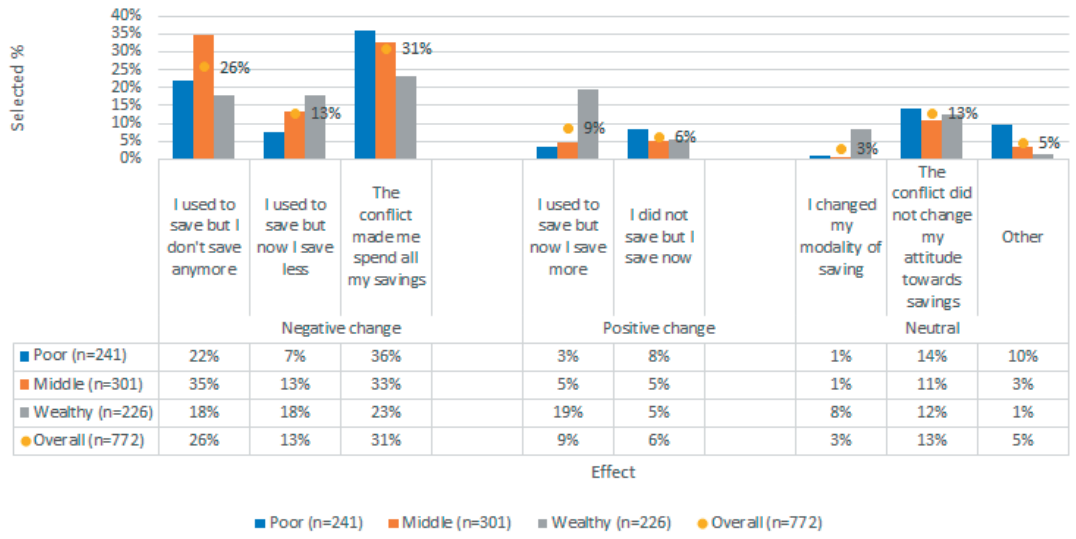
Effects of Events

Survey respondents were asked a series of questions to better understand the effect that recent events such as the 2014-17 conflict with ISIS, the COVID-19 pandemic and the December 2020 devaluation of the Iraqi dinar may or may not have had on the saving behaviour of households in the sample. The answers to questions about these events are discussed in this subsection.

The 2014-17 Conflict

All respondents were asked the question "How has your attitude towards savings changed due to the recent 2014-2017 conflict? (Select all that apply)". The columns in the graph below are grouped according to whether they reflect a negative change in saving behaviour (first three columns); no change in saving behaviour (fourth and fifth columns) or neutral/no change (last three columns)

Figure 19: Percentage of households in each wealth group who reported each effect of 2014-17 conflict on saving behaviour



	I used to save but I don't save anymore	I used to save but now I save less	The conflict made me spend all my savings	I used to save but now I save more	I did not save but I save now	I changed my modality of saving	The conflict did not change my attitude towards savings	Other
Poor (n=241)	22%	7%	36%	3%	8%	1%	14%	10%
Middle (n=301)	35%	13%	33%	5%	5%	1%	11%	3%
Wealthy (n=226)	18%	18%	23%	19%	5%	8%	12%	1%
Overall (n=772)	26%	13%	31%	9%	6%	3%	13%	5%

These results suggest that, unsurprisingly, the 2014-17 conflict had a generally negative impact on the tendency of households in the sample to save, with 31% of households reporting that the conflict made them spend all their savings, 26% reporting that the conflict made them stop saving and 13% reporting that the conflict reduced the extent to which they save. Only 13% of the sample reported that the conflict did not change their attitude towards savings. One saving circle participant interviewed in Qaim explained that: "The money we have saved before ISIS came to this area has been spent during the period of displacement. Now, we start to save money from scratch."

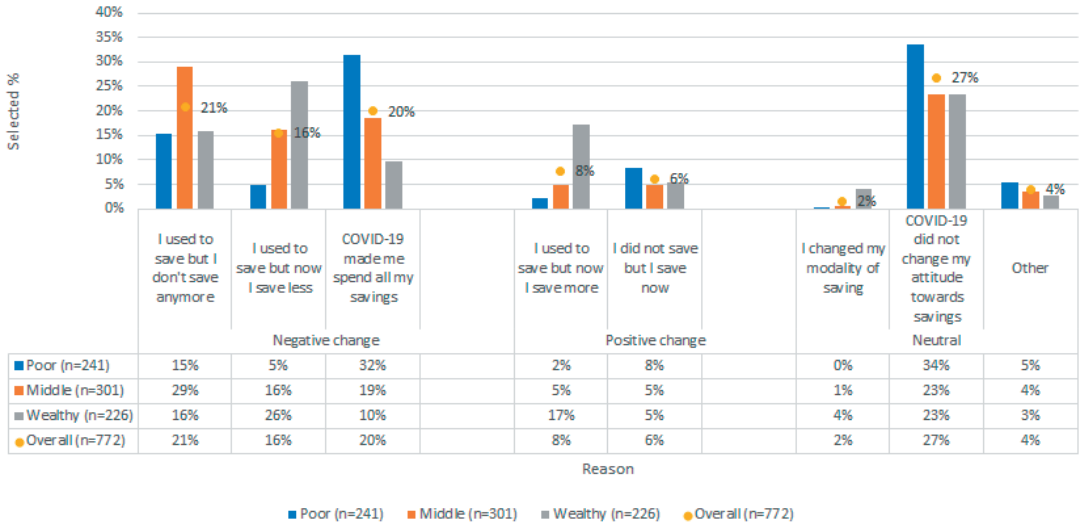
Smaller proportions of wealthy respondents than poor and middle wealth respondents reported that the conflict had caused them to stop saving or spend all their savings. This could indicate that, unsurprisingly, wealthy households may be more resilient to shocks such as conflict than households in other wealth groups, a point which is echoed in the KIIs. Furthermore, 19% of

wealthy households reported that the conflict has caused them to save *more.* This could be a reflection of wealthy households becoming more inclined to save in anticipation of future shocks having experienced the conflict, which would be consistent with the finding that saving for emergencies, perhaps driven by personal experience of past shocks, represents the primary reason for households in all wealth groups to save.

COVID-19 Pandemic

All respondents were asked the question "How has your attitude towards savings changed due to the recent COVID-19 pandemic? (Select all that apply)".

Figure 20: Percentage of households in each wealth group who reported each effect of the COVID-19 pandemic on saving behaviour



	I used to save but I don't save anymore	I used to save but now I save less	COVID-19 made me spend all my savings	I used to save but now I save more	I did not save but I save now	I changed my modality of saving	COVID-19 did not change my attitude towards savings	Other
	Negative change			Positive change		Neutral		
Poor (n=241)	15%	5%	32%	2%	8%	0%	34%	5%
Middle (n=301)	29%	16%	19%	5%	5%	1%	23%	4%
Wealthy (n=226)	16%	26%	10%	17%	5%	4%	23%	3%
Overall (n=772)	21%	16%	20%	8%	6%	2%	27%	4%

Reason

Poor (n=241) Middle (n=301) Wealthy (n=226) Overall (n=772)

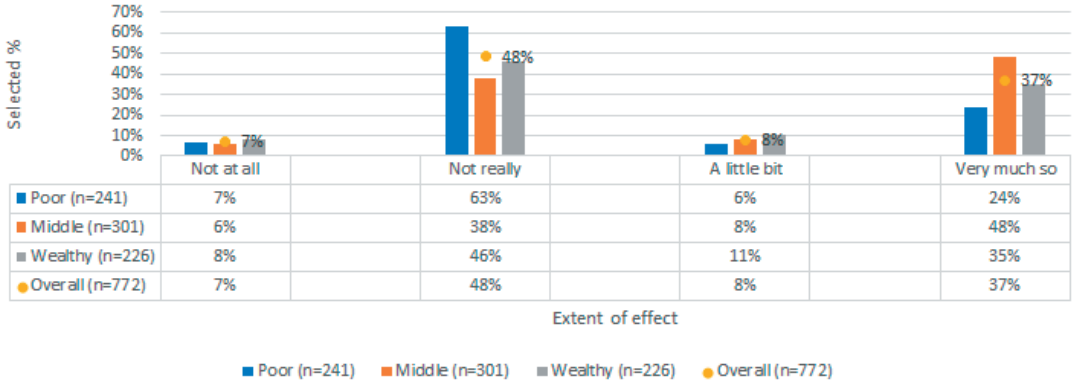
These results suggest that, like the 2014-17 conflict, the COVID-19 pandemic has had a generally negative impact on the tendency of households in the sample to save, with 20% of households reporting that the pandemic made them spend all their savings, 21% reporting that the pandemic made them stop saving and 16% reporting that the pandemic reduced the extent to which they save. Only 27% of the sample reported that the pandemic did not change their attitude towards savings. The findings suggest, though, that household saving behaviour has been disrupted less by the COVID-19 pandemic than it was by the 2014-17 conflict, with lower proportions of respondents reporting that the pandemic caused them to spend all their savings or to stop saving, and a higher proportion reporting that the pandemic did not change their attitude towards savings (relative to the responses regarding the conflict). This is unsurprising given the widespread destruction and displacement caused by the conflict, neither of which have been features of the COVID-19 pandemic.

Similar differences between wealth groups are apparent here to those discussed in the previous section about the effects of the 2014-17 conflict. Again, for the most part, smaller proportions of wealthy respondents than poor or middle wealth respondents reported that the COVID-19 pandemic made them stop saving or spend all of their savings. Again, a substantial proportion of wealthy families (17%) report that the COVID-19 pandemic has made them save *more*, perhaps due to lower expenses.

December 2020 Currency Devaluation

Finally, all respondents were asked "To what extent has the recent devaluation of the currency affected your saving/borrowing/lending practices?". Given the recency of the 22% currency devaluation at the time of survey data-collection for this study (which began in February 2021), and thus the lack of time for the devaluation's precise consequences to become manifest for households, respondents were asked to state the extent of change, rather than the precise type of change.

Figure 21: Percentage of households in each wealth group who reported each extent of effect of the December 2020 currency devaluation on saving behaviour



	Not at all	Not really	A little bit	Very much so
Poor (n=241)	7%	63%	6%	24%
Middle (n=301)	6%	38%	8%	48%
Wealthy (n=226)	8%	46%	11%	35%
Overall (n=772)	7%	48%	8%	37%

It is notable here that only 7% of the respondents in the sample reported that the December 2020 currency devaluation would not affect their saving/borrowing/lending behaviour at all, while over a third of respondents answered that their behaviour would be affected “very much so”. The answers provided by KIs interviewed for this study also suggest that the recent currency devaluation has had and will have a substantial effect on saving, borrowing and lending in the target population. All but three of the 26 KIs who were asked about the currency devaluation answered that they or their business had been affected by it (generally to a large extent), referring to its upwards impact on goods prices and the value of debts.

Although the clustering of responses at “Not really” and “Very much so” with a dip at “A little bit” in between could be explained by lack of clarity in survey design about the relative degrees of intensity these two responses indicate, this clustering could also indicate that households are either very affected by the currency depreciation, or barely affected, with little in between. The clustering is observed in every location.

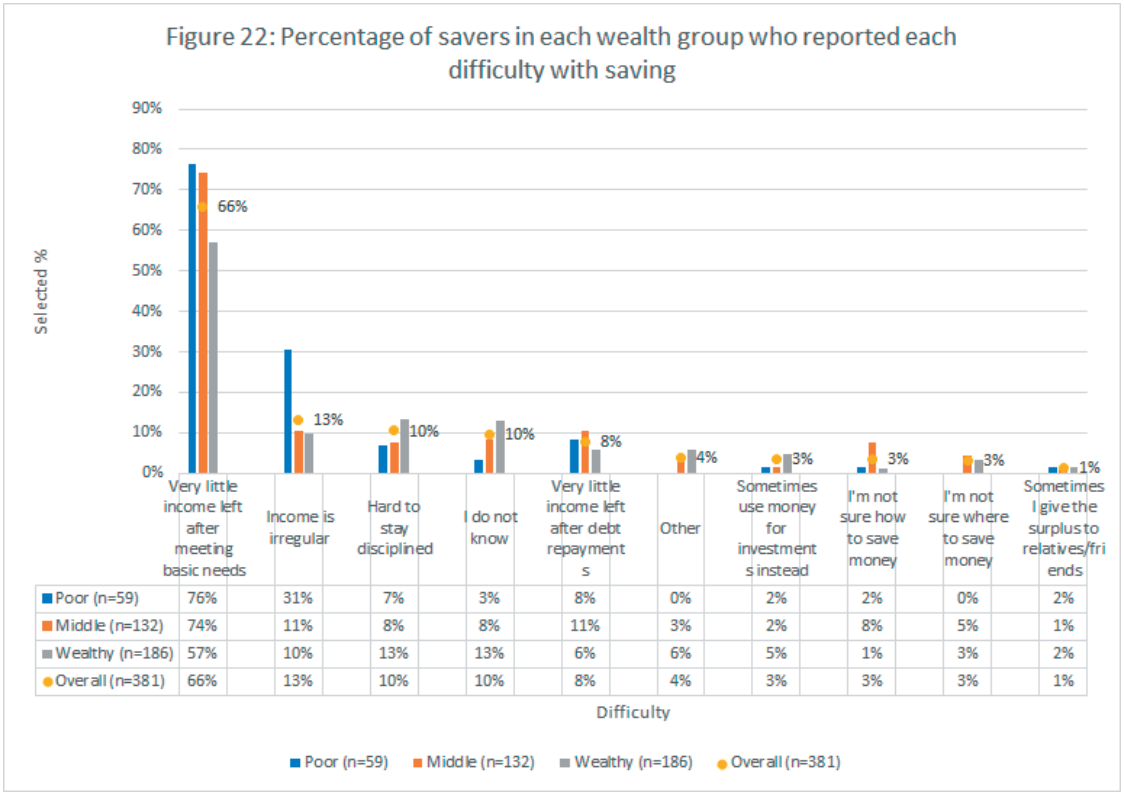
These findings suggest that the recent currency devaluation has substantially impacted saving, borrowing and lending in the target population, and will continue to have an impact which will need to be monitored closely.

Barriers to Saving

This section studies barriers to saving from three different angles: firstly, considering why households who do save struggle to do so; secondly, why households who do not save do not save; and thirdly, why how households who save some of the time don’t *always* save.

Savers: What Difficulties Do You Face When Saving?

All 381 respondents who reported that their household saves money currently or saves money at least rarely were asked “What are the difficulties you face when saving money? (Select all that apply)”.



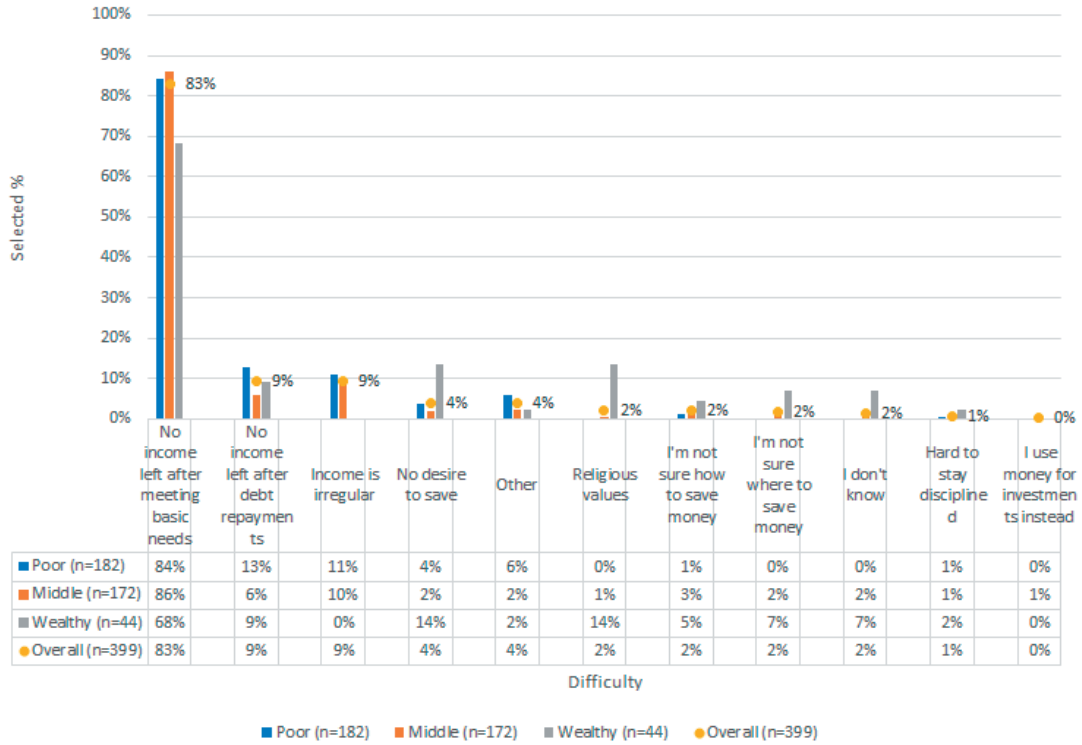
Of the difficulties savers in the sample face when saving, a lack of income after meeting basic needs was by far the most frequently reported difficulty, followed by another income-related difficulty, “income is irregular”. Lack of knowledge about how or where to save money does not appear to be a common impediment to saving, with only 3% of respondents reporting each of these difficulties. It also appears that very few households (1% of the sample) are impeded from saving as a result of needing to give surplus income to friends or relatives. The finding that shortages in income relative to what is needed to meet basic needs is the main difficulty households face when saving is confirmed by the analysis below and is consistent with the finding that saving is considerably more prevalent amongst wealthier households.

Although a lack of income after meeting basic needs was the most frequently reported difficulty in all wealth groups, this difficulty, along with irregularity of income, was reported more frequently in poor households than in middle wealth or wealthy households. Middle wealth and wealthy households, on the other hand, were more likely than poor households to struggle with staying disciplined with their savings. This evidence suggests that the difficulties savers face with saving differ slightly between wealth groups.

Non-Savers: Why Do You Not Save Money?

All 399 respondents who reported that they never save were asked the question “Why do you not save money? (Select all that apply)”.

Figure 23: Percentage of non-savers in each wealth group who reported each reason for not saving



	No income left after meeting basic needs	No income left after debt repayments	Income is irregular	No desire to save	Other	Religious values	I'm not sure how to save money	I'm not sure where to save money	I don't know	Hard to stay disciplined	I use money for investments instead
Poor (n=182)	84%	13%	11%	4%	6%	0%	1%	0%	0%	1%	0%
Middle (n=172)	86%	6%	10%	2%	2%	1%	3%	2%	2%	1%	1%
Wealthy (n=44)	68%	9%	0%	14%	2%	14%	5%	7%	7%	2%	0%
Overall (n=399)	83%	9%	9%	4%	4%	2%	2%	2%	2%	1%	0%

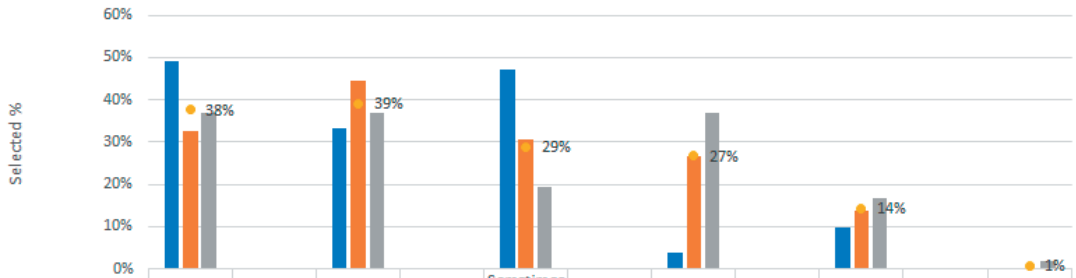
For non-savers in the sample, as for savers, lack of income appears to be by far the most significant barrier to saving in all wealth groups. 83% of non-savers in the sample reported “no income left after meeting basic needs” as a reason for not saving, while the second and third most frequently selected reasons are also both income related. Again, very few respondents report that they are impeded from saving because of not knowing how or where to save.

While lack of income appears to be the most significant barrier to saving in all wealth groups, again wealthy households are less likely to report this barrier than poor and middle wealth households. Wealthy households, on the other hand, are more likely than poor and middle wealth households to report reasons for not saving such as religious principles and lack of desire to save.

Sometimes Savers: Why Don’t You Always Save?

All 266 respondents who reported saving at some times but not all the time were asked “Why do you save money at some times but not at others? (Select all that apply)”.

Figure 24: Percentage of sometimes savers in each wealth group who reported each reason for saving at some times but not others



	Sometimes income is higher	Sometimes expenses are lower	Sometimes there is more reason to save (e.g. something needs to be bought)	Sometimes we have more discipline	I don't know	Other
Poor (n=51)	49%	33%	47%	4%	10%	0%
Middle (n=101)	33%	45%	31%	27%	14%	0%
Wealthy (n=104)	37%	37%	19%	37%	17%	2%
Overall (n=266)	38%	39%	29%	27%	14%	1%

Reason

Poor (n=51) Middle (n=101) Wealthy (n=104) Overall (n=266)

In the sample as a whole, the two most frequently cited reasons for which households save money at some times but not *always* are variation in income and variation in expenses. This is unsurprising given that "no income left after meeting basic needs" appears to represent the most important barrier to saving for both savers and non-savers in the sample, as discussed previously. Both of these reasons relate to whether or not households have leftover income to save (compared to, say, desire to save or knowledge of saving mechanisms). 63% of sometimes savers reported at least one of these two reasons, while 14% reported both.

It is notable that variation in *expenses* is as frequently cited as a reason for not always saving as variation in income is. While some individuals, such as daily labourers, may struggle to save at certain times due to fluctuating income, other individuals, with stable income, may struggle to save at certain times due to *fluctuating expenses*. This suggests that households may be encouraged to save by financial literacy interventions targeted at managing expenses, and that saving interventions may benefit from better understanding of what causes households in the relevant community to vary their expenditure.

Furthermore, factors relating to *desire* to save (not just *ability* to save) also appear to play an important role in motivating households to save at some times but not others. 29% of sometimes savers cited "sometimes there is more reason to save (e.g. something needs to be bought)" as a reason for saving at some times but not others, including 47% of poor sometimes savers. This high figure amongst pooor sometimes savers could be explained by the fact that households with low income *have to* save even to make relatively small purchases which a wealthier household could purchase with a single paycheck. 37% of wealthy sometimes savers and 27% of middle wealth sometimes savers report discipline as a reason for saving at some times but not others. This suggests that some wealthy and middle wealth households may benefit from interventions to improve their discipline with saving, either through new saving mechanisms (e.g. saving circles, where households have to commit to contributing a fixed sum at each meeting) or financial literacy training. These findings also echo a theme which appears elsewhere in this report: while poor households are constrained from saving first and foremost by lack of income, the set of factors preventing middle and wealthy households from saving is broader, including discipline.

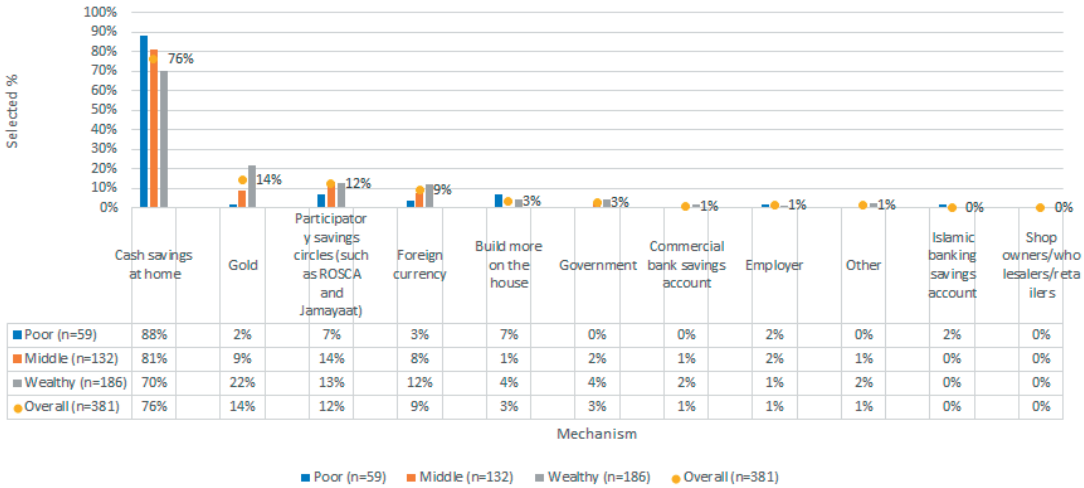
Saving Mechanisms

This section discusses which saving mechanisms are most frequently stated as being used by savers in the sample and which types of saving mechanisms households in the sample would *ideally* use if they could choose any. Closer consideration is then given to savers' relationships with formal saving mechanisms such as bank accounts; possible underinvestment of savings in many communities; and the prevalence of Rotating Savings and Credit Associations (ROSCAs) and other community saving mechanisms in the target population.

Saving Mechanisms Used by Respondents

All 381 respondents who reported that their household saves money currently, or saves money at least a few weeks in the year, were asked the question: "How do you save money? (Select all that apply)".

Figure 25: Percentage of savers in each wealth group who reported using each saving mechanism



	Cash savings at home	Gold	Participatory savings circles (such as ROSCA and Jamayaat)	Foreign currency	Build more on the house	Government	Commercial bank savings account	Employer	Other	Islamic banking savings account	Shop owners/wholesalers/retailers
Poor (n=59)	88%	2%	7%	3%	7%	0%	0%	2%	0%	2%	0%
Middle (n=132)	81%	9%	14%	8%	1%	2%	1%	2%	1%	0%	0%
Wealthy (n=186)	70%	22%	13%	12%	4%	4%	2%	1%	2%	0%	0%
Overall (n=381)	76%	14%	12%	9%	3%	3%	1%	1%	1%	0%	0%

Consistent with expectations, cash at home represents by far the most common modality households in the sample use to save. Notably, of the five most frequently stated modalities, four are such that the saver can keep their savings within the home (cash savings, gold, foreign currency and construction on the house). Possible reasons for this tendency of households in the sample to save at home rather than with formal financial institutions are discussed further on, as are the implications of this tendency for investment in local economies.

Whereas only 12% of savers in the sample selected the answer "participatory saving circles (such as ROSCA and Jamiyah)" in response to this question, respondents' answers to other questions in the survey suggest that the proportion of households in the sample using saving circles is actually substantially higher than 12%. This point is also elaborated upon further on.

Although cash savings at home represent the most frequently stated saving mechanism for all wealth groups, other saving mechanisms are also used by middle wealth and wealthy savers. For example, 22% of wealthy savers report saving using gold, compared to 9% of middle wealth savers and only 2% of poor savers. This could suggest that when poor households become wealthier, they may not turn to formal financial institutions to keep their savings as an alternative to cash, but rather to the alternatives typically used by middle wealth and wealthy savers, including gold and foreign currency.

Community Saving Circles

Community saving circles are used around the world to facilitate saving, borrowing and lending, typically in communities which lack access to formal banking services. Although community saving circles can take on a variety of forms, they are defined by the core activity of members each contributing a sum of money to a pot at scheduled meetings of the circle, for the pot to be taken home by a different member after each meeting. This activity is referred to using different terms in different contexts, including, most commonly, "rotating savings and credit association" (ROSCA) and, in Iraq, "Jamiyah" and "Silfa"

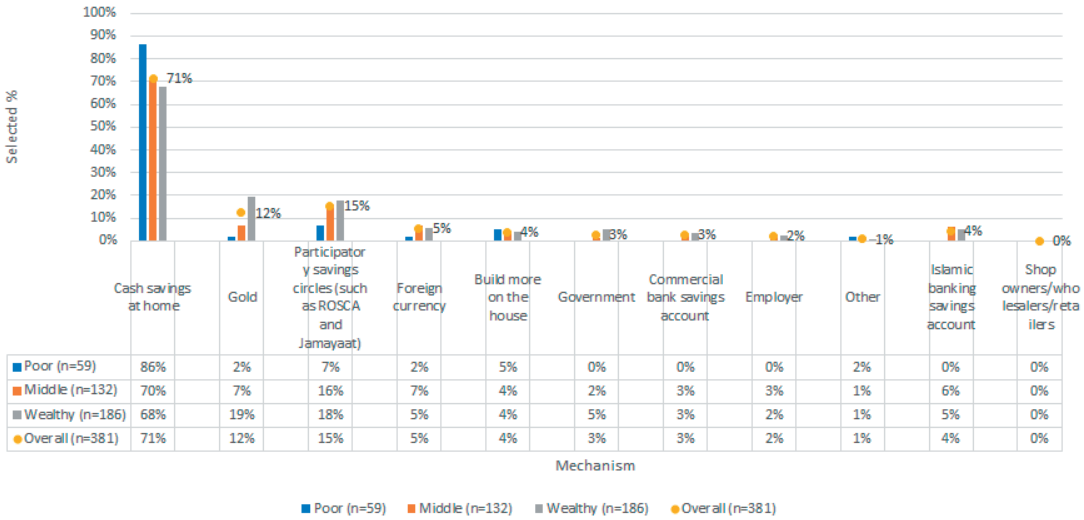
Community saving circles offer a mechanism by which households and businesses can borrow and lend money without using a bank. So, community saving circles can prevent cash from sitting idle and keep credit following in a community even when community-members are unbanked. Often, community saving circles operate on trust-based, interest-free agreements between members who are part of the same social networks, rather than using formal contracts.

Throughout this report, this saving mechanism is referred to as a "saving circle".

Saving Mechanisms Desired by Respondents

To better understand whether there is a discrepancy between the saving mechanisms households in the sample are currently using and the saving mechanisms they would *ideally* like to use (which would suggest that households currently struggle to access saving mechanisms they believe they could benefit from), all 381 savers in the sample were asked the question: "If you could choose any method, how would you ideally save money? (Select all that apply)".

Figure 26: Percentage of savers in each wealth group who selected each saving mechanism as their *ideal* saving mechanism



	Cash savings at home	Gold	Participatory savings circles (such as ROSCA and Jamayaat)	Foreign currency	Build more on the house	Government	Commercial bank savings account	Employer	Other	Islamic banking savings account	Shop owners/wholesalers/retailers
Poor (n=59)	86%	2%	7%	2%	5%	0%	0%	0%	2%	0%	0%
Middle (n=132)	70%	7%	16%	7%	4%	2%	3%	3%	1%	6%	0%
Wealthy (n=186)	68%	19%	18%	5%	4%	5%	3%	2%	1%	5%	0%
Overall (n=381)	71%	12%	15%	5%	4%	3%	3%	2%	1%	4%	0%

Any saving modality which was selected by a lower proportion of savers in response to this question than in response to the previous question is such that the number of savers in the sample that would *ideally* use that modality to save is smaller than the number *actually* using it. So, a net positive number of households must view these modalities as next-best alternatives to their most-preferred modality. Similarly, any saving modality selected by a higher proportion

of savers in response to this question than the last must be such that there is a net positive number of households in the sample wanting to switch to that modality as their more-preferred modality, if they were able to do so.

Studying the data for the overall sample, cash savings, gold and foreign currency all fit this description of being "next-best" modalities for a net positive number of households in the sample, while Islamic banking savings accounts, commercial bank savings accounts and saving circles fit the description of being "more-preferred" modalities for a net positive number of households in the sample. This suggests that there are indeed some households in the sample who feel they would benefit from switching from at-home savings to formal and/or community saving mechanisms if they were able to do so. For example, of the 33 savers in the sample who currently save using cash but don't view cash savings as an *ideal* saving mechanism, seven view an Islamic bank savings account as an ideal saving mechanism and a further six view a commercial bank savings account as an ideal saving mechanism. Nonetheless, the number of respondents desiring a switch to formal saving mechanisms is low. Cash, gold and foreign currency remain in place as three of the four most selected saving modalities even when respondents are asked how they would *ideally* save money, while still only 4% and 3% of respondents selected "Islamic bank savings account" and "Commercial bank savings account" respectively in response to this question.

Demand from poor households in the sample for saving mechanisms other than cash savings at home is low compared to the demand from middle wealth and wealthy households. This is consistent with the point that arises elsewhere in this report that, for poor households, the main difficulty with saving is lack of income; what to do with income after it is received (e.g. whether a preferable alternative to cash savings can be found) is a secondary concern.

Demand for Formal Saving Mechanisms

Although the low degree of usage of formal saving mechanisms by households in the sample is likely partly a reflection of the exclusion of many households in the target population from formal financial institutions, it is also worth considering reasons for which households in the target population may hold a preference for at-home savings. For example, given the earlier discussed finding that saving for emergencies represents the most common reason for saving amongst savers in the sample, it is possible that savers have a preference for cash savings because they place a high premium on their savings being easily accessible in the event of an emergency (for example if they are forced to flee their homes).

Lack of trust in formal financial institutions may also prevent households from depositing their savings with formal financial institutions. When asked why they do not have a bank account, of the 748 survey respondents who reported that they do not have a bank account, 47% selected the option "I don't trust banking institutions". This represented the most frequently selected reason, with more than twice as many respondents selecting this response as each of the answers: "I don't know how to open a bank account" (20%) and "I don't have the documents needed to open a bank account" (6%) and almost twice as many respondents selecting this response as the second-most common response: "there are no bank branches close by" (26%).

These factors suggest that to increase usage of formal financial services in the target population, formal financial institutions will need to adapt their product offerings to cater to a possible saver premium on accessibility of savings and will need to take measures to improve their trustworthiness in the eyes of the target population.

Investment

The fact that keeping cash at home is the main modality of saving for households in the sample could suggest that these savings are not being invested in productive assets to the extent that they could be if they were stored with lending institutions such as commercial or Islamic banks. This might suppress demand in local economies and result in a missed opportunity for investment in productive capacity. One KI, the economics professor interviewed

in Mosul, raised this matter as a key problem facing the Iraqi economy, stating that "The most important thing is that we should use the saved money that isn't borrowed … We are living in a recession situation, which means that the volume of savings is much greater than the volume of investments." Whereas 32% of households in the sample reported that they currently save money, only 16% reported that they invest money.

Several contextual features make the fact that savings appear to be sitting idle particularly damaging. Firstly, when asked the question "Do you have the desire to open a small or medium business?", 40% of survey respondents answered "yes" (compared to 20% answering "I don't know" and 40% answering "no"). This suggests that survey respondents believe that business opportunities exist to be invested in. A second issue with holding cash savings in Iraq is that the real value of savings held in Iraqi dinars can be eroded substantially by depreciation of the Iraqi dinar, such as that which occurred in December 2020.

Among other advantages, saving circless offer an effective, non-formal means of preventing savings from sitting idle and not contributing to the reconstruction of local economies.

Saving Circles

While only 47 respondents (6% of the sample) answered "community saving mechanisms (such as ROSCA and Jamiyah)" when asked how they save, 138 respondents (18% of the sample) answered "yes" when asked the question: "Have you ever participated in a saving circle/ROSCA/Jamiyah?"[26], including 90 (12% of the sample) who reported that they still participate. This discrepancy between the number of respondents reporting participating in a saving circle and the number of respondents reporting using a saving circle *as a means of saving* could suggest that some saving circle participants in the sample might not perceive participation in a saving circle as a form of saving per se. It is possible that households perceive saving circles primarily as a *credit mechanism* rather than as a *saving mechanism*. Alternatively, households may view saving circles as being a distinct form of financial activity from both conventional saving and borrowing in that the experience of participating in a saving circle is quite different from that of saving cash at home or of asking for a loan. Indeed, by definition, saving circles integrate saving and borrowing on a rotating basis, so may not be perceived by users as either a mechanism to facilitate "saving" or a mechanism to facilitate "borrowing", but as a mechanism to facilitate consumption, investment and financial management more broadly. This point could be of importance when considering how programmatic and policy interventions involving saving circles are presented to target populations.

Awareness of and participation in saving circles appears to be strong even amongst KIs who were not chosen for interviews specifically to represent saving circle participants. Of 16 KIs who were asked whether saving circles are active in their communities, ten answered yes, often quite affirmatively. One store owner in Ramadi, for example, said of saving circles: "of course, these mechanisms are available. Even between the owners of the stores and shops, such mechanisms are available."

It is important, however, to disaggregate the commonness of saving circles by location. Whereas 46% of respondents surveyed in Qaim district answered that they have participated in a saving circle, these numbers fall to 20% and 12% for Ramadi and Mosul respectively, while the number for Sinjar is only 2%. This suggests that along with having an exceptionally low number of formal financial institutions relative to other districts, Sinjar also lacks saving circles. This is especially concerning given that respondents in Sinjar appear to save as much or more than respondents in other districts. This, again, is consistent with the idea that Sinjar has been "forgotten" by the Iraqi reconstruction effort.

26 The wording of the question was designed so that participants in various types of community saving circles would answer "yes". For example, respondents participating in village savings and loans associations (VSLAs) intended to facilitate investment in businesses in rural communities should have answered "yes". However, it is possible that some respondents participating in such organisations may not view them as "saving circles" per se and therefore may have answered "no", leading to an underestimate in the survey data of usage of saving circles in the population.

BORROWING

This section discusses the borrowing practices of households in the sample, with "borrowing" understood here (on the part of an individual or business) as the act of receiving cash, goods or services from another person or institution to be paid back at a date in the future. The analysis looks firstly at the prevalence of borrowing amongst households and businesses in the sample, the reasons for which households and businesses borrow and the extent to which borrowing decisions have been impacted (if at all) by different shocks in recent years. The discussion ends with analysis of the extent to which different borrowing mechanisms are used by households and businesses in the sample, what might explain the popularity of some borrowing mechanisms relative to others and the role that Islamic principles play in shaping households' and businesses' borrowing behaviour.

Prevalence of and Reasons for Borrowing

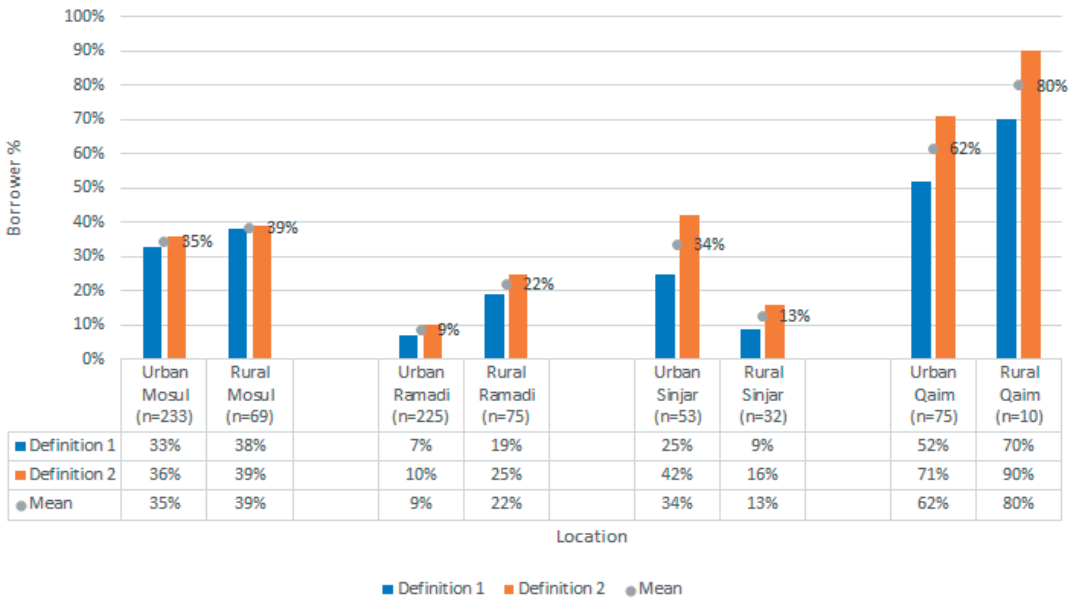
Prevalence of Borrowing

To gain an understanding of the prevalence of borrowing amongst households in the sample, this analysis considers respondents' answers to the questions "does your household currently have any debts?" (asked to all survey respondents) and "did you take on any new debts in the past year?" (asked to all survey respondents who reported not *currently* having any debts). Respondents who answered "yes" to the first question are called borrowers under Definition 1, while respondents who answered yes to either of these two questions are called borrowers under Definition 2. Like in the analysis of the prevalence of saving, these questions are intended to capture both a point-in-time and a longer-term definition of what it means to be a "borrower".

The analysis below considers the prevalence of borrowing in the sample according to these two definitions, disaggregated by location and several household characteristics. In the sample as a whole, 25% of respondents are borrowers by Definition 1, while 31% are borrowers by Definition 2.

By Location

Figure 27: Percentage of households in each location who borrow money according to each definition of being a "borrower" (mean of both definitions represented as a dot)



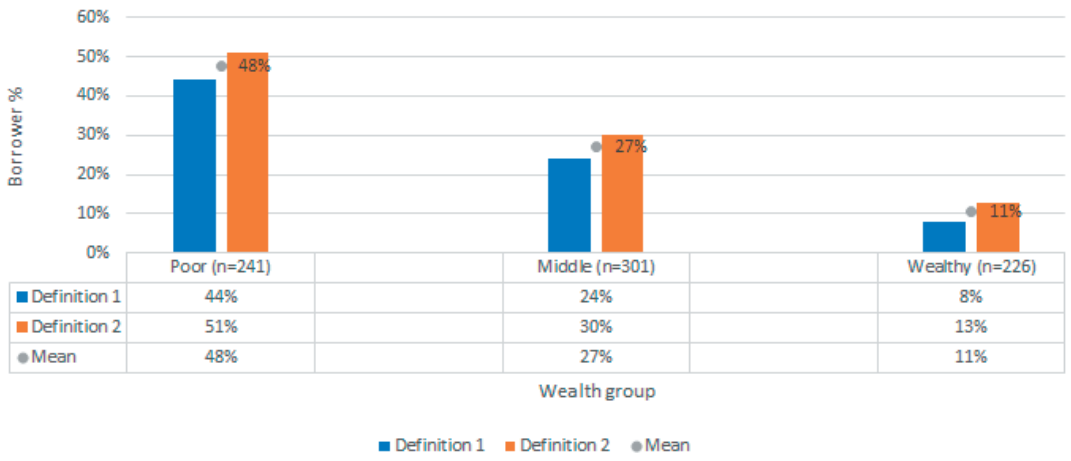
	Urban Mosul (n=233)	Rural Mosul (n=69)	Urban Ramadi (n=225)	Rural Ramadi (n=75)	Urban Sinjar (n=53)	Rural Sinjar (n=32)	Urban Qaim (n=75)	Rural Qaim (n=10)
Definition 1	33%	38%	7%	19%	25%	9%	52%	70%
Definition 2	36%	39%	10%	25%	42%	16%	71%	90%
Mean	35%	39%	9%	22%	34%	13%	62%	80%

The most notable feature of this disaggregation by location is the extent to which the prevalence of borrowing amongst respondents from both urban and rural Qaim exceeds the prevalence of borrowing amongst respondents from other locations in the study. A tentative explanation for the high prevalence of borrowing observed in Qaim could be linked to the finding set out in the urban wealth breakdown tables that respondents across all wealth groups in urban Qaim typically have social contacts from outside of their own wealth group, while respondents in the other three urban locations typically do not. In keeping with this hypothesis, one business-owner in Qaim answered when asked about the terms on which she extends credit to customers: “I don’t have any terms regarding this matter, and we only rely on trust since our community is a small one and everyone here knows each other, unlike Baghdad and Ramadi…”. This explanation might not be accurate or important, however, as several other factors such as Qaim’s exceptionally high degree of poverty and exposure to conflict between armed groups may also explain the exceptionally high prevalence of borrowing in this district.

Building on the finding of the CCI “Household Debt in Iraq” report that “relationship capital” plays a key role in facilitating borrowing by vulnerable households in Ninewa, it is plausible that *inter-wealth group* relationship capital could also be a key determinant of the prevalence of borrowing and lending within a community, with communities with greater inter-wealth group connectivity seeing greater flow of loans from wealthier households with savings to poorer households needing either personal or business loans.

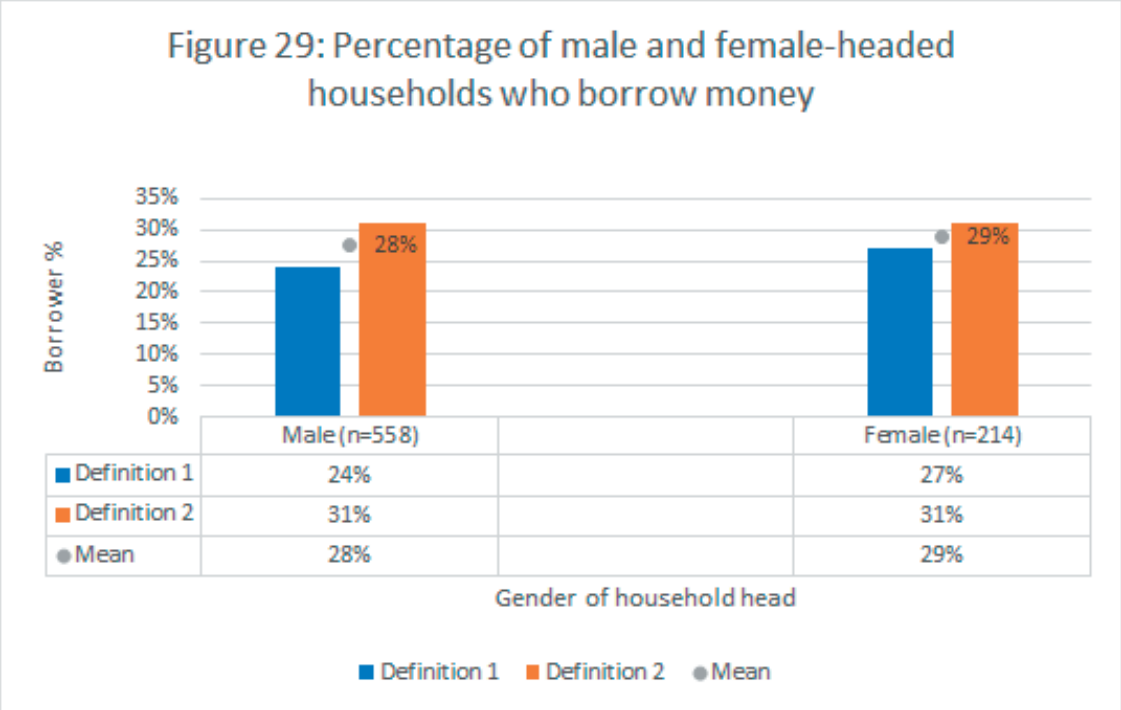
By Wealth Group

Figure 28: Percentage of households in each wealth group who borrow money



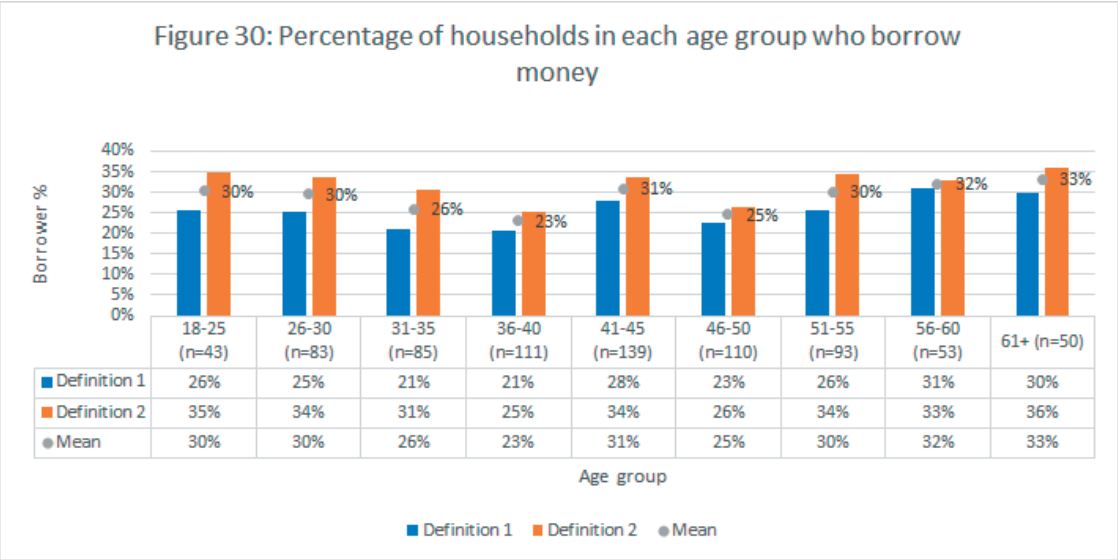
As would be expected, the prevalence of borrowing varies substantially between wealth groups, decreasing from the poor to the middle to the wealthy group. Whereas 51% of poor households report having been in debt at some point during the past year, only 13% of wealthy households report the same.

By Gender of Household Head



The results shown above do not suggest that there is any substantial difference between prevalence of borrowing amongst male and female-headed households in the sample.

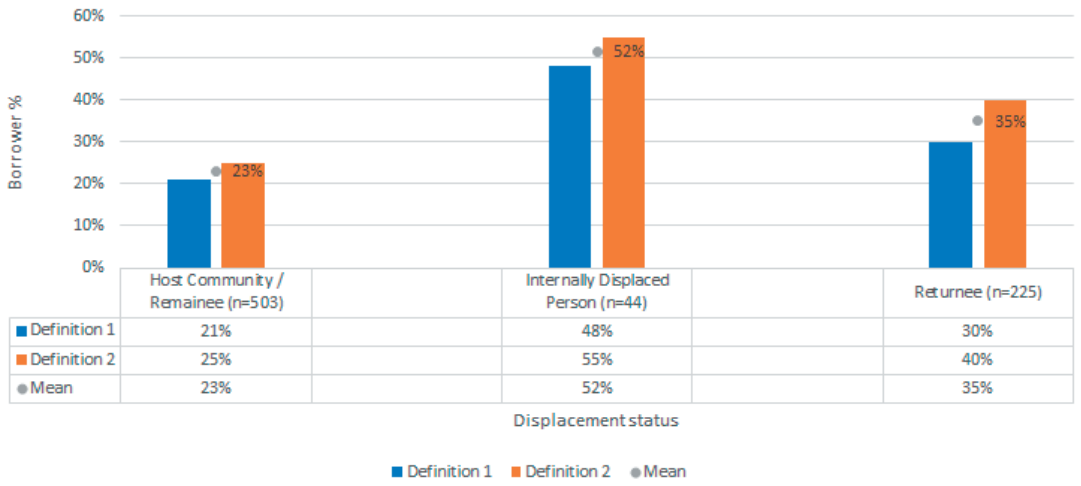
By Age of Household Head



With the exception of the 41-45 age group, the prevalence of borrowing across the age groups (measured using the mean of the two definitions) takes the shape of a parabola. Tentatively, this pattern in the data can be viewed through the lens of the life-cycle model of saving and borrowing. Viewed through this model, at younger ages (18-20), household heads may borrow to gain education and establish families, paying back these debts and adding savings during their prime earning years (31-50), before returning to dis-saving as they reach the end of their prime earning years (51+).

By Displacement Status

Figure 31: Percentage of households with each displacement status who borrow money



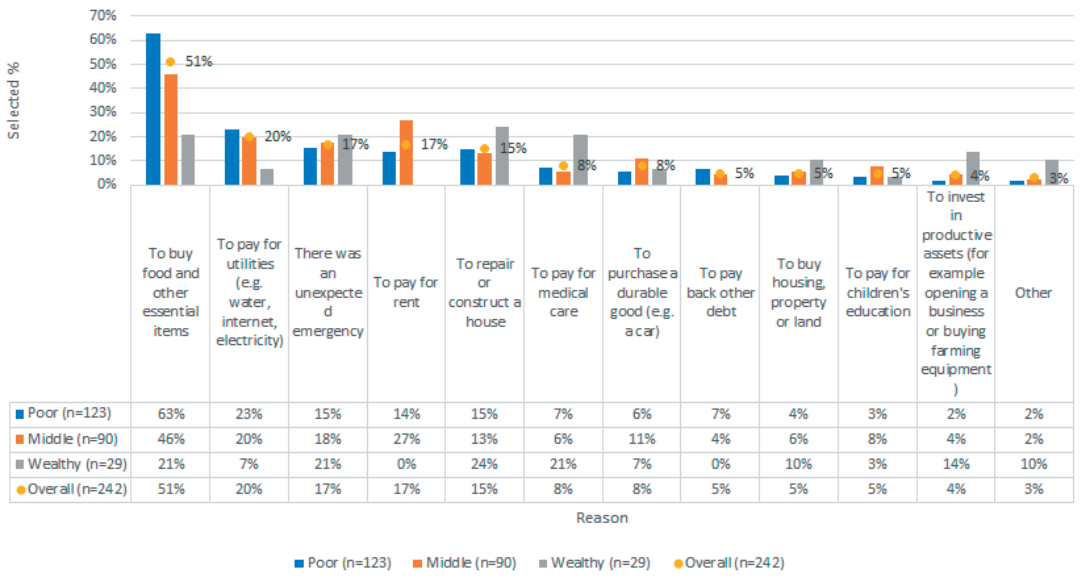
	Host Community / Remainee (n=503)	Internally Displaced Person (n=44)	Returnee (n=225)
Definition 1	21%	48%	30%
Definition 2	25%	55%	40%
Mean	23%	52%	35%

Borrowing is most common amongst IDP households in the sample, followed by returnees and remainees respectively. It is unsurprising that IDPs borrow more than other groups as these households represent a particularly vulnerable part of the population and thus are likely more reliant than other groups on borrowing as a means of meeting basic needs. The income of the average IDP household in the sample is half that of the average remainee household and less than half that of the average returnee household.

Reasons for Borrowing

All 242 respondents who reported being in debt or having borrowed money at some point in the past year were asked the question “What did you borrow money for? (Select all that apply)”.

Figure 32: Percentage of borrowers in each wealth group who reported each reason for borrowing



	To buy food and other essential items	To pay for utilities (e.g. water, internet, electricity)	There was an unexpected emergency	To pay for rent	To repair or construct a house	To pay for medical care	To purchase a durable good (e.g. a car)	To pay back other debt	To buy housing, property or land	To pay for children's education	To invest in productive assets (for example opening a business or buying farming equipment)	Other
Poor (n=123)	63%	23%	15%	14%	15%	7%	6%	7%	4%	3%	2%	2%
Middle (n=90)	46%	20%	18%	27%	13%	6%	11%	4%	6%	8%	4%	2%
Wealthy (n=29)	21%	7%	21%	0%	24%	21%	7%	0%	10%	3%	14%	10%
Overall (n=242)	51%	20%	17%	17%	15%	8%	8%	5%	5%	5%	4%	3%

In keeping with the findings of previous CCI research on debt in vulnerable Iraqi households, poor borrowers in the sample for this study most frequently report borrowing to pay for basic day-to-day necessities such as "food and other essential items" (selected by 63% of poor borrowers) and utilities (selected by 23% of poor borrowers). The reasons for which middle wealth borrowers in the sample borrow are similar to those for which poor borrowers borrow, although borrowing to pay for food is considerably less common amongst middle wealth borrowers (46% of middle wealth borrowers) while borrowing to pay for rent is considerably more common (27% of middle wealth borrowers). The reasons for which wealthy borrowers borrow, on the other hand, are quite different to those for which poor and middle wealth borrowers borrow. Three of the four most common reasons for which wealthy families borrow are large one-time expenses, rather than small day-to-day expenses: to repair or construct a house (24%), an unexpected emergency (21%) and medical care (21%). However, a substantial proportion of wealthy borrowers (21%) report borrowing to buy food and other essential items; this means that of the full set of wealthy households in the sample (borrowers and non-borrowers combined), 3% report borrowing to buy food and other essential items.[27]

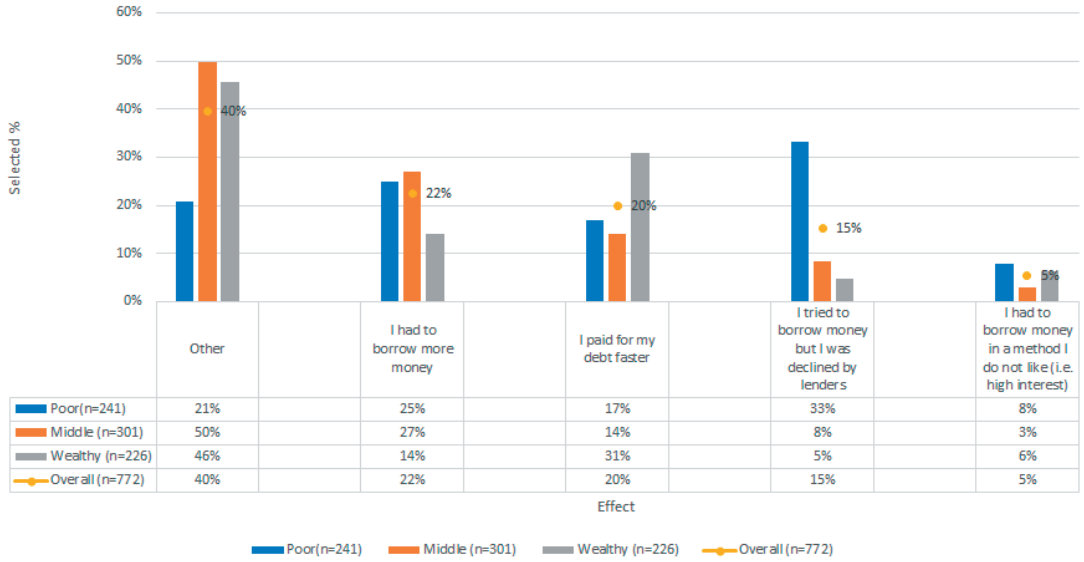
These results suggest that, amongst households in the target population, borrowing to meet basic needs such as food, health and shelter is not a phenomenon which is limited to poor households, but one which also extends to some middle wealth and even wealthy households. This is likely to be the case to a larger extent in some parts of Ninewa and Anbar governorates than in others. Returning to the findings of the wealth breakdown, for example, it is notable that a majority of respondents in urban Qaim who identified themselves as "wealthy" reported using the PDS to meet their food needs (although this was not true of the wealthy group in any other city).

Effects of Events

COVID-19 Pandemic

All respondents were asked "How has the COVID-19 pandemic impacted your attitude towards borrowing money? (Select all that apply)".

Figure 33: Percentage of households in each wealth group who reported each effect of COVID-19 pandemic on borrowing behaviour (majority of respondents answereing "Other" specified that there was no effect)



	Other	I had to borrow more money	I paid for my debt faster	I tried to borrow money but I was declined by lenders	I had to borrow money in a method I do not like (i.e. high interest)
Poor(n=241)	21%	25%	17%	33%	8%
Middle (n=301)	50%	27%	14%	8%	3%
Wealthy (n=226)	46%	14%	31%	5%	6%
Overall (n=772)	40%	22%	20%	15%	5%

27 13% of wealthy households who are borrowers * 21% of wealthy borrowers who borrowed to buy food and other essential items.

The majority of respondents reported some effect. Most strikingly, 33% of poor households reported that they tried to borrow money during the pandemic but were rejected by lenders. This is concerning given that past CCI research has shown that credit represents an important "informal social safety net" for many vulnerable households, with many households relying on loans from community-members, often made out of social solidarity, to meet basic needs.[28]

As was the case when respondents were asked about the impact of the COVID-19 pandemic on their attitudes towards saving, a plurality of respondents reported no effect of the COVID-19 pandemic on their attitudes towards borrowing money. However, a slightly higher percentage of respondents (around 40%) reported that their borrowing behaviour was unaffected by the COVID-19 pandemic than reported that their saving behaviour was unaffected (27%).

20% of respondents stated that they paid for their debt faster during the pandemic. Given the damage done by the COVID-19 pandemic to the economic health of communities and households, it is unlikely that faster repayments were driven by improved ability of debtors to make repayments during the pandemic. Rather, faster repayments may have been driven by increased pressure from creditors to repay. In this sense, the faster repayment rates reported by respondents in the sample could be a reflection of an important point about informal lending agreements between borrowers and creditors such as shop owners which has also been discussed by previous CCI research: that these lending agreements rarely feature fixed timelines for repayment, but that the speed of repayment is sensitive to the needs of both the borrower and lender. Faced with declining sales during the COVID-19 pandemic, it is possible that many business-owners sought to recall debts from customers to make repayments for their own debts to wholesalers. Indeed, when asked what would happen if they were unable to repay debts to wholesalers, several SME-owners interviewed for this study answered that they would seek to recall debts from customers to meet their own debts. Similarly, it is possible that faced with loss of their own income, individual lenders may have recalled debts from friends and family members.

An alternative explanation for faster debt repayment is that, for some households, expenses fell more during the pandemic than income did, enabling faster debt repayments to be made. This explanation is supported by the fact that faster repayment of debt was most common amongst wealthy households in the sample, who likely have been most able to retain their income during the pandemic.

The effects of the COVID-19 pandemic on borrowing behaviour appear to vary substantially according to wealth group. While 50% of middle wealth households and 46% of wealthy households did not report any impact of the pandemic on their borrowing behaviour, this was only true of 21% of poor households. Furthermore, as noted above, 33% of poor households reported being declined by lenders during the pandemic, quadruple the numbers from the other two wealth groups.

Credit Mechanisms

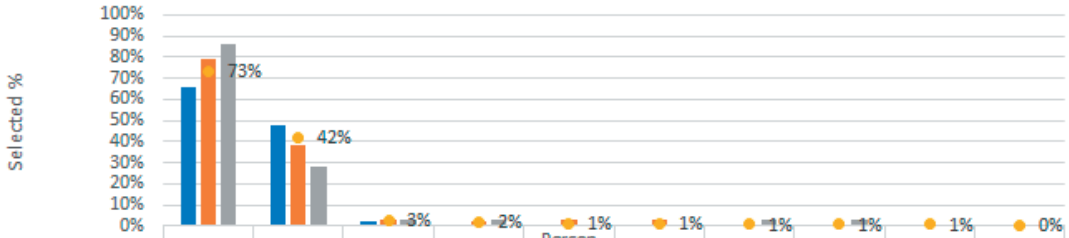
This section discusses which credit mechanisms are used by borrowers relative to which credit mechanisms they prefer. The analysis here also aims to gauge the extent to which loan sharks play a role in informal lending markets in the target population, as well as considering borrowers' relationships with formal credit mechanisms such as bank loans and the usefulness of saving circles as a credit mechanism in the target population.

Credit Mechanisms Used by Respondents

All 242 borrowers in the sample (i.e. all respondents who reported having been in debt at some point during the past year) were asked: "To whom do/did you owe? (Select all that apply)".

28 CCI/DRC (2019)

Figure 34: Percentage of borrowers in each wealth group who reported using each credit mechanism



	Relative or friend	A local shop owner	Employer	Other	Person who is not a relative / friend	Commercial bank	Microfinance institution	NGO	Prefer not to say	Government
Poor (n=123)	66%	48%	2%	1%	0%	0%	1%	1%	1%	1%
Middle (n=90)	79%	38%	3%	2%	3%	3%	0%	0%	1%	0%
Wealthy (n=29)	86%	28%	3%	3%	0%	0%	3%	3%	0%	0%
Overall (n=242)	73%	42%	3%	2%	1%	1%	1%	1%	1%	0%

Mechanism

Poor (n=123) Middle (n=90) Wealthy (n=29) Overall (n=242)

The results above show that the vast majority of borrowing by households in the sample is through informal channels and close personal social networks such as relatives or friends (most frequently selected) and local shop owners (second most frequently selected). This is consistent with the findings of previous CCI research on household debt in vulnerable households in Iraq. The findings here further suggest that borrowing typically occurs through relatives, friends or local shop owners even amongst middle wealth and wealthy households. In other words, use of formal credit mechanisms is extremely low not only amongst poor households in the sample, but amongst households in all three wealth groups.

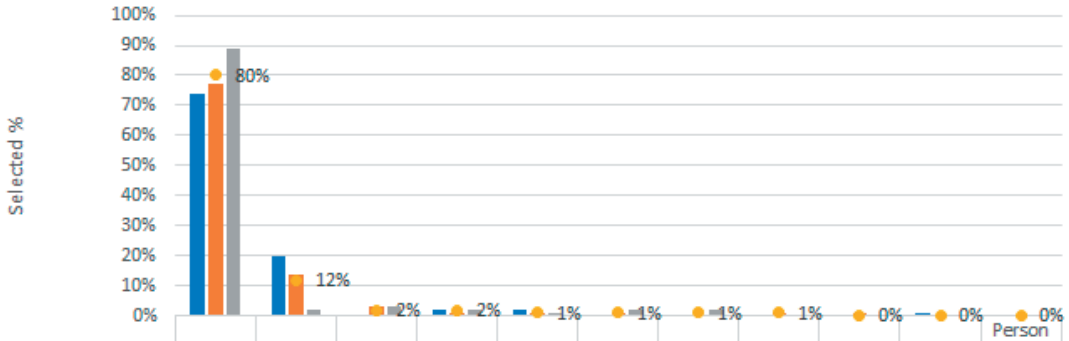
Use of relatives or friends as a credit mechanism increases as wealth group increases, while use of local shop owners as a credit mechanism decreases. This could be a result of the differing reasons for which households in different wealth groups typically borrow. For credit to meet small day-to-day expenses, which is poor households' most common reason for borrowing, it may be most efficient to simply buy on credit from the vendor. However, for larger expenses such as those for which wealthy households typically borrow, it may be necessary and worthwhile to go through the trouble to source the loan from a party other than the vendor, such as a family member or friend.

72% of borrowers reported taking their loans in the form of cash, while 41% of borrowers reported taking their loans in the form of goods purchased on credit and 7% in the form of services purchased on credit (for example, house repairs).

Credit Mechanisms Preferred by Respondents

All 772 survey respondents were asked the question: "If you had to borrow money today, which method would you prefer?".

Figure 35: Percentage of households in each wealth group who selected each credit mechanism as their *ideal* credit mechanism



	Family member / friend	Shop owner	Islamic bank	Employer	I do not know	Commercial bank	Government	Microfinance institution	NGOs	Others	Person who is not a relative or a friend
Poor (n=241)	74%	20%	0%	2%	2%	0%	0%	0%	0%	1%	0%
Middle (n=301)	77%	14%	3%	1%	1%	1%	0%	1%	1%	0%	0%
Wealthy (n=226)	89%	2%	3%	2%	1%	2%	2%	0%	0%	0%	0%
Overall (n=772)	80%	12%	2%	2%	1%	1%	1%	1%	0%	0%	0%

Mechanism

Poor (n=241) Middle (n=301) Wealthy (n=226) Overall (n=772)

Whereas 42% of borrowers in the sample reported that they had borrowed from a shop owner, only 12% of respondents in the sample selected “shop owner” as their preferred source of loan. Meanwhile, 80% of respondents selected “family member or friend” as their preferred source of loan, an even greater number than the percentage of borrowers who reported having borrowed from a relative or friend (73%). These results suggest that households in the sample prefer to source credit from lenders with whom they have close personal relationships. When asked to explain their choice of preferred source of loan, many respondents who selected “family member/friend” specified benefits such as ease (i.e. no complicated process); speed; lack of interest and fees; and flexible and lengthy repayment timelines.

Preference for relatives or friends as a credit mechanism increases as wealth group increases, while preference for local shop owners as a credit mechanism decreases. These results mirror the differences in *usage* of different credit mechanisms between different wealth groups, discussed in the previous section, and may be driven by similar factors. In other words, wealthy families are more likely to have enough income to not have to think about purchasing goods from shop owners on credit.

Loan Sharks

“Loan sharks” are defined here as money-lenders operating illegally with extremely high interest rates and strict repayment terms. Although the role loan sharks play in different countries’ and communities’ credit markets has been discussed widely in the development literature, comparatively little has been written about the topic in the Iraqi context. With large numbers of extremely vulnerable households present in Ninewa and Anbar, and with formal financial services accessible to only a small minority of the population, it is likely that significant opportunities exist for loan sharks to operate in these governorates, with a damaging impact on vulnerable households and communities. Given the prohibition of *riba* (usury) in Islam, the topic of exploitative lending is a sensitive one in the Iraqi context, making it difficult to gain accurate information about the extent to which exploitative lenders may or may not be active amongst the target population and about the effect their activities may have on vulnerable households. This makes it all the more important for this research and future research on credit mechanisms in Ninewa and Anbar to consider these topics.

As a tentative means to gauge the extent to which loan sharks may or may not be present in the target population, all survey respondents were asked the question: “Are there people in your city who exploit the poor by lending at very high interest rates?”. While 24% of respondents answered “no such people” and a further 51% of respondents answered “I don’t know”, 20% of respondents answered “a small number of such people”, 5% of respondents answered “a fairly large number of such people” and three respondents answered “a very large number of such people”.

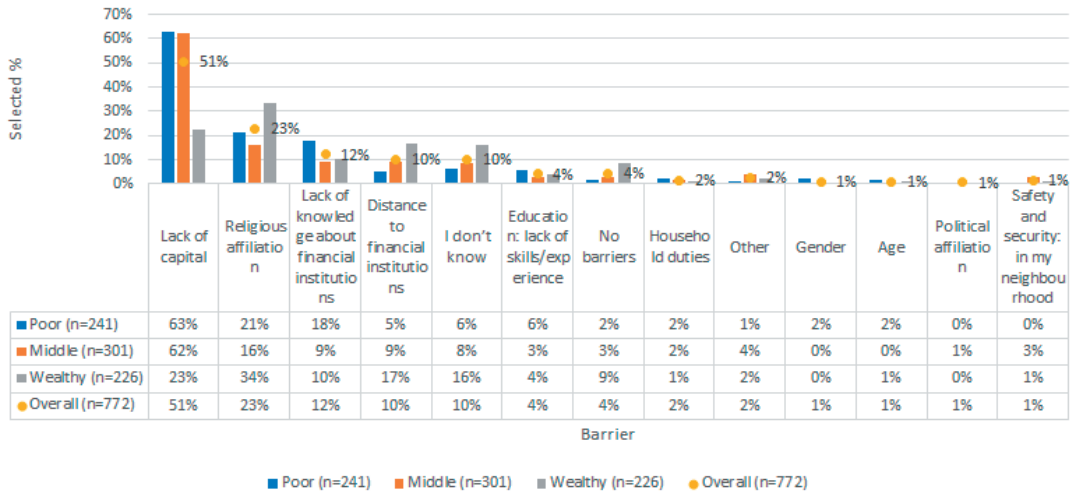
These figures suggest that predatory lenders must be kept in mind when considering the credit mechanisms households and businesses in the target population use to borrow money. More focused research would be beneficial to answer difficult, but important, questions about predatory lending in Iraq such as how many households in the target population have taken on loans from loan sharks and what the consequences of taking on this type of debt might be.

Formal Credit Mechanisms

Given that the most common reason for households in the sample to borrow is to pay for food and other essential items (i.e. small day-to-day expenses rather than large one-time purchases), it is unsurprising that borrowers typically use informal, flexible credit mechanisms based on personal relationships to borrow. This type of borrowing is simply not one for which formal financial institutions offer loan products. For example, when describing the types of personal loans her institution offers, a manager interviewed at Al Rafidain bank in Mosul referred to two types of loans: larger loans for house purchases and smaller loans for other one-time purchases such as buying a car. Elaborating on the types of loans for which individuals come to the bank, she mentioned: “to buy a car, build a house, to marry, treatment”, all of which represent one-time purchases rather than day-to-day expenses. Using the terminology set out earlier in this report, formal financial services appear to have a suitability problem. However, even though formal financial institutions offer personal loans for large one-time purchases, which are the most common reason for wealthy households to borrow, even amongst wealthy households use of formal credit mechanisms is extremely low relative to use of informal credit mechanisms.

As shown in the graph below, when asked what barriers or limitations restrict their access to formal financial services, respondents most frequently cited “lack of capital”, with 51% of respondents choosing this option. This is consistent with the point made above and elsewhere in this report that many individuals may be put off dealing with formal financial institutions simply because the sums of money involved in their financial affairs are too small for the services offered by formal financial institutions to be relevant.

Figure 36: Percentage of respondents reporting each barrier to accessing formal financial institutions



	Lack of capital	Religious affiliation	Lack of knowledge about financial institutions	Distance to financial institutions	I don’t know	Education: lack of skills/experience	No barriers	Household duties	Other	Gender	Age	Political affiliation	Safety and security: in my neighbourhood
Poor (n=241)	63%	21%	18%	5%	6%	6%	2%	2%	1%	2%	2%	0%	0%
Middle (n=301)	62%	16%	9%	9%	8%	3%	3%	2%	4%	0%	0%	1%	3%
Wealthy (n=226)	23%	34%	10%	17%	16%	4%	9%	1%	2%	0%	1%	0%	1%
Overall (n=772)	51%	23%	12%	10%	10%	4%	4%	2%	2%	1%	1%	1%	1%

Furthermore, the discussion of preferred credit mechanisms above, as well as the discussion of ROSCAs below, suggests that households prefer for their borrowing relationships to be underpinned by personal relationships, largely due to the flexibility this gives repayment schedules. Given this, it is unsurprising that households may be averse to impersonal formal financial institutions, where provision of financial services is (at least in theory) governed by fixed rules and processes.

Unwillingness to deal with *riba* due to religious principles also represents, for many survey respondents and KIs, an important reason to avoid formal financial institutions such as commercial banks. This represents a desirability problem with formal financial services. When asked what barriers or limitations restrict their access to formal financial services, 23% of respondents answered "religious affiliation", meaning this barrier was second only to "lack of capital" (51%) and ahead of barriers such as "lack of knowledge about formal financial institutions" (12%) and "distance to formal financial institutions" (10%). Several KIs noted that religious principles are a key reason for which they and their community do not deal with formal financial institutions. One SME owner in Ramadi, for example, stated that for religious reasons he would not take a bank loan with *riba* (also noting that the loans provided by MFIs are too small to meet the needs of his business).

To reach the large section of the Iraqi population that is unwilling to deal with *riba*, formal financial institutions will need to both adapt their service offerings to include financial services which adhere to principles of Islamic finance as well as increase awareness about those products. The evidence from the KIIs suggests that this is far from an impossible task. As is discussed in the "Lending" section, it appears that even when borrowers and lenders are unwilling to partake in lending agreements featuring an explicit percentage interest rate, they are willing to participate in a range of alternative arrangements by which the lending party can still earn a profit from the borrowing party. So, widespread unwillingness to deal with *riba* need not impede profitable lending and investment.

Saving Circles

To understand the appeal that saving circles might hold as a credit mechanism for the target population, it is useful to compare this credit mechanism to the credit products offered by formal financial institutions. Interviews conducted with saving circle-participants suggest that saving circles enable households and businesses to borrow and lend without facing many of the key shortcomings of financial institutions which have been discussed above, including geographical distance; stringent documentation requirements; complex procedures; impersonality; inflexibility; and *riba*.

In contrast to formal financial institutions, which impose stringent documentation requirements excluding a substantial portion of the population, documentation requirements for saving circles appear to be low. All three saving circle-leaders interviewed stated that there are no documentation requirements for participating, although one KI in Ramadi (who leads a saving circle which appears to have been set up by Oxfam) reported that anyone who receives a loan from the saving circle must sign a contract. Furthermore, many saving circle-participants interviewed reported that "smoothness" (which can be interpreted as a lack of complex procedures) is an advantage of saving circles relative to formal financial institutions.

The majority of saving circle-participants interviewed reported that they participate with friends and relatives (although it is less clear whether *all* participants in any given saving circle are typically friends and relatives). Several KIs explicitly stated that trust between participants is an important advantage of saving circles relative to formal financial institutions. Linking this point about participation with friends and family to the one above about procedures and documentation requirements, one saving circle-participant in Mosul said of ROSCAs that "sometimes, they are better than formal financial institutions, because conditions required are less as all participants are friends and relatives."

The majority of saving circle-participants interviewed also reported that flexibility is an important advantage of saving circles relative to formal financial institutions. Elaborating on the

form of this flexibility, a KI in Qaim stated that: “For example, if I only have 40k, I pay it, and a few days later I pay the remaining 10k.”

Finally, several KIs reported that some members of their community are more willing to draw credit from saving circles than from formal financial institutions because saving circles are less likely to charge interest. For example, when discussing the advantages of saving circles relative to formal financial institutions, one saving circle-participant in Mosul stated: “we don’t take loans with interests because this is forbidden for us as Muslims, so those savings circles are better.” Indeed, evidence from CCI staff suggests that it is common for saving circles to seek approval from a local religious leader before beginning operations.

As discussed earlier in this report, many respondents in the sample reported using saving circles. 138 survey respondents (18% of the sample) reported having been involved in a saving circle at some point, while 90 (12% of the sample) reported that they are currently involved in a saving circle. A further 34 respondents (4% of the sample) reported that they have never been involved in a saving circle themselves but know somebody who has been. Amongst the 48 respondents who stopped being involved in a saving circle, most respondents reported stopping because they stopped saving or because their saving circle stopped functioning (28 respondents combined, representing 58% of those who stopped). Smaller numbers of these 48 respondents reported stopping due to dissatisfaction with saving circles as a saving mechanism, with 11 (23%) reporting they stopped because the saving circle took too much time; seven (15%) because they don’t trust saving circles; and four (8%) because they found a better way of saving money.

Several saving circle-participants interviewed reported that the activities of saving circles have been disrupted or stopped entirely by the 2014-17 conflict and/or the COVID-19 pandemic. One saving circle participant in Qaim explained that: “Before ISIS came to this area the financial situation was fine, the work was going well and markets were in good condition. At that time, we were making payments every two weeks for the saving associations. After the conflict caused by ISIS in this area, the situation became worse and people used their money to rehabilitate their houses.” Respondents mentioned several ways in which the COVID-19 pandemic has damaged the activities of saving circles, including by reducing the amounts of income saving circle-participants have available to contribute to the saving circle and by preventing meetings of saving circles due to curfews and social distancing concerns. Programmes could support currently dormant community saving circles to reestablish themselves after the pandemic.

This discussion suggests that given the substantial shortcomings of the formal financial system in Iraq in meeting the needs and desires of consumers, saving circles may present a useful and expandable means of facilitating borrowing and lending in the target population. By preventing savings from sitting idle, and instead being invested in purchases or projects on a biweekly or monthly basis (depending on how often the saving circle meets and allocates the pot to a member), saving circles can help to bridge the concerning gap between saving and investment which was discussed earlier in this report. Furthermore, saving circles could present a vehicle through which to create social dialogue between participants and certain formal financial institutions to slowly rebuild trust. As well as working to build brand new saving circles, interventions could be targeted at *rebuilding* saving circles: supporting community saving circles which were disrupted by the conflict and by the COVID-19 pandemic to reestablish themselves.

LENDING

To better understand the dynamics of borrowing and lending in the target population, this study also examined the motivations lenders, both individuals and businesses, have for extending credit. In particular, the analysis aims to build on previous CCI research to further explore how economic self-interest and altruism may act as motivating factors for lending. Furthermore, while past research has identified lending networks in vulnerable communities as constituting an “informal social safety net”, this study aims to gain insight on whether this safety net is

unidirectional (i.e. the same lenders supporting the same borrowers over time) *or* whether the safety net is characterised more by mutual support, particularly amongst households with variable income (i.e. agents borrow from their network during periods when their income is relatively low, but then become lenders to their network when their income is relatively high).

Of the 772 households surveyed, 20% of households answered "yes" when asked the question "Do you lend cash or goods to anyone who is not a member of your household?". As is discussed further below, similar proportions of poor, middle and wealthy respondents reported lending. The large number of lenders in the sample makes it possible to study motivations for lending using survey data, as well as data collected from SME owners through KIIs.

Motivations for Lending

All 156 respondents who reported lending were asked the question: "Do you ever lend money to anybody who is not expected to repay in full?", to which 43% answered "yes". This corroborates the finding of past CCI research that motivations for lending in the target population are often non-financial. The analysis below interrogates more closely the various financial and non-financial motivations individuals and businesses may have for lending.

Financial Motivations

All survey respondents who reported having taken on debts in the past year and all survey respondents who reported that they lend cash or goods to somebody outside of their household were asked if the loans they have taken or made feature interest. Only 1% of borrowers reported paying interest on their loan, while 8% of lenders reported charging interest. These results suggest that it is relatively rare for lending in the target population to carry interest. The notion that lending in the target population is not typically motivated by interest is consistent with the picture of household credit which has emerged over the course of this report and past CCI research, with households typically borrowing on flexible terms from close personal relations to meet basic needs such as food, utilities, shelter and health expenses, rather than from impersonal entities in purely transactional or business-oriented relationships. Furthermore, as has been discussed, a large proportion of survey respondents and KIs report unwillingness, based on religious principles (described in the box on Islamic finance), to partake in loans involving interest.

Most SMEs interviewed during this study also reported that they sometimes make loans which are motivated by non-financial considerations. For example, when asked "What are your (non-financial) motivations for extending credit to customers, if any?", one SME-owner in Qaim answered: "The humanitarian side, I do this according to the situation of the person."

However, the KIIs suggest that businesses have several financial motivations for lending. Firstly, even if loans do not feature an *explicit* percentage interest rate, they may feature an *implicit* interest rate in that the same good may be sold to a customer at a higher price if it is purchased on credit than if it is paid for immediately. For example, one business-owner in Ramadi explained: "Our religion forbids us from dealing in interest, and it is the main reason for not dealing with it, however, when we sell a device in debit, we charge an extra fee where we agree upon the value before selling it (e.g. if its value is 100000 IQD, we sell it for 130000 IQD in debt)." Similarly, for business loans, equity investments appear to offer a means to enable profitable lending without interest. An SME-owner in Qaim described how he had received offers for equity investments as an alternative to debt financing for his business: "Regarding interest, I was offered a loan before in Ramadi but I refused it because of *Riba* 'interest'. As for Qaim, there are no such entities available; however, there are entities that came and offered to become partners with us in return of taking half of our profits. Since we don't make a lot of profits from the project, we couldn't afford having a partner to share our gains with."

These examples reinforce the notion that the unwillingness of many agents to partake in *riba* need not block the occurrence of profitable lending and investment in the target population. These examples also suggest that even though very few borrowers report borrowing with interest, they may still be paying a price for credit. This would indicate, in turn, that being able

to pay for goods on the spot, rather than with deferred payments, may enable vulnerable households to access goods more cheaply, which could represent a benefit of MPCA for recipient households.

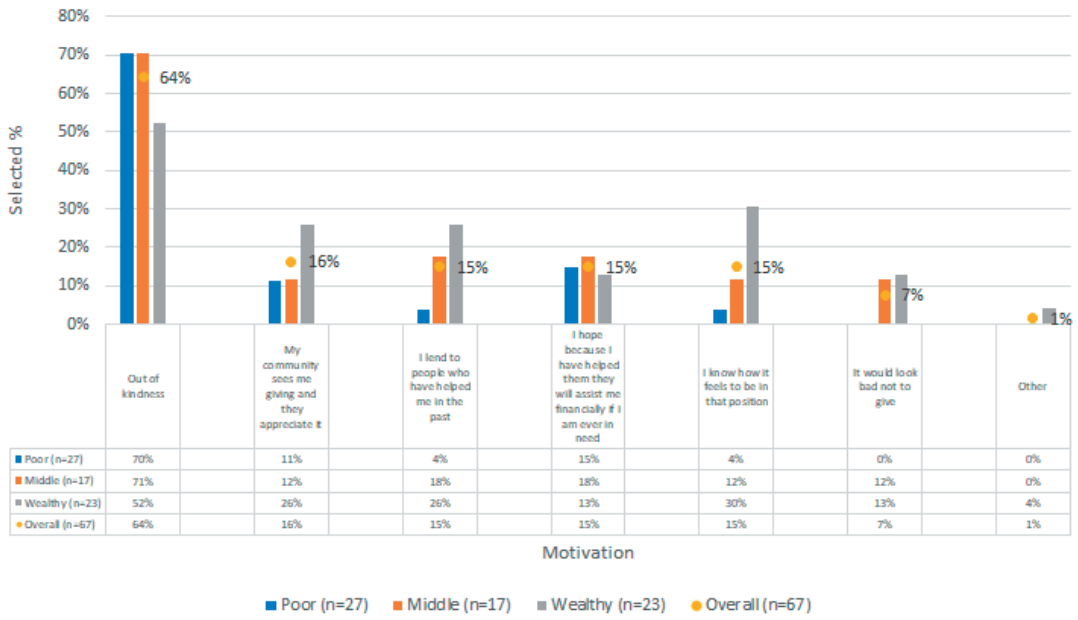
Returning to businesses' financial motivations for lending, even if a business does not charge a markup for goods purchased on credit, it may only allow customers to defer payments due to the financial motivation of facilitating sales. This sentiment was captured by a business-owner in Mosul who, when asked if he had any non-financial motivations for lending, reported that: "I wouldn't mention any [non-financial] motivation as the purpose of this business is to obviously make profits; however, selling in installments in general facilitates things for people, and is overall convenient…". Several KIs reported that their business extends credit to customers in the gaps between their monthly salaries and receives repayment from customers when monthly salaries are paid.

For example, one business-owner in Ramadi stated: "I don't promote selling on credit, but the market basically is relying on monthly salaries, so I cannot continue my business without debts." This comment that "the market basically is relying on monthly salaries", echoed by several other KIs (including saving circle participants as well as business-owners), may also have important programmatic implications in that it could indicate that the proportion of vulnerable households in the population and their degree of vulnerability may vary according to a predictable monthly cycle in alignment with the payment of salaries. This point is particularly relevant given the previously discussed finding that even middle wealth and wealthy households, who typically earn regular salaries, are not immune to having to borrow to pay for basic necessities such as food, perhaps in alignment with the salary cycle.

Non-Financial Motivations

All 67 lenders who answered "yes" when asked "Do you ever lend money to anybody who is not expected to repay in full?" were asked the follow-up question: "If yes, why do you do it?".

Figure 37: Percentage of lenders who lend at a loss in each wealth group reporting each reason for lending at a loss



	Out of kindness	My community sees me giving and they appreciate it	I lend to people who have helped me in the past	I hope because I have helped them they will assist me financially if I am ever in need	I know how it feels to be in that position	It would look bad not to give	Other
Poor (n=27)	70%	11%	4%	15%	4%	0%	0%
Middle (n=17)	71%	12%	18%	18%	12%	12%	0%
Wealthy (n=23)	52%	26%	26%	13%	30%	13%	4%
Overall (n=67)	64%	16%	15%	15%	15%	7%	1%

Consistent with previous research, the results above suggest that many lenders (28% of all lenders in the sample) lend at a loss "out of kindness". The results also suggest, however, that some lenders lending without expecting full repayment are still doing so with reciprocal considerations in mind; 24% of lenders who reported lending without expecting full repayment

stated that they lent either to someone who had helped them in the past, or with the hope that they might be able to call upon their debtor for financial assistance in the future. The next section considers the extent to which lending in the target population can be characterised by this type of mutual assistance.

Mutual Support

Although the findings of this study and previous research suggest that borrowing and lending in the target population can be understood largely as part of an "informal social safety net", questions remain as to precisely how this safety net operates. On the one hand, this safety net could be characterised as a top-down one in which the same borrowers draw upon credit from the same lenders over extended periods of time; for example, with poor households continuously drawing upon credit from wealthier family members. On the other hand, this safety net could be characterised by households with the *same financial circumstances*, but with variable income, lending and borrowing to one another alternatingly to enable consumption smoothing through mutual support. The former safety net model can be referred to, for the purposes of this study, as the "top-down" model, while the latter can be called the "mutual support" model.

Future research would be useful to determine which of these two models (if either) better characterises the informal social safety nets being discussed here as this consideration could have implications for understanding how households use MPCA. Under the mutual support model, poor households might be expected to channel extra income, including MPCA, to other households in their mutual support network if the extra income is received at a time when their income happens to be high relative to other households in their mutual support network. Under the top-down model, on the other hand, MPCA would not flow into these types of mutual support networks.

This study presents a few pieces of indicative evidence that the mutual support model characterises at least some of the lending occurring in the target population. This evidence includes the point raised previously that households sometimes have reciprocal considerations in mind even when lending at a loss. Furthermore, if mutual support is an important reason for lending, one would expect that households with variable income, all other things being equal, would be more likely to be lenders than households without variable income. This is true of the survey respondents for this study with 15% of respondents who report that their income does not vary substantially from month to month reporting that they lend money, compared to 28% of households who report that their income *does* vary substantially from month to month. This is despite the fact that survey respondents with stable income, on average, have higher income than respondents with variable income and thus might be expected to have greater financial means with which to extend credit. Indeed, the existence of mutual support networks (as opposed to top-down support networks) might explain why the lender proportions in the poor and middle groups (19% and 18% respectively) are not substantially lower than in the wealthy group (25%).

DISCUSSION

The findings of this report have studied the saving, borrowing, and lending behaviour of households in Ninewa and Anbar governorates, considering factors such as the prevalence of these activities, the reasons for which they occur and the mechanisms through which they take place. The analysis has returned to several themes throughout, including the differences between the behaviours and needs of households in different wealth groups, the roles and shortcomings of formal financial institutions, and the usefulness of ROSCAs as a means for communities to organise saving and credit.

In each of the 8 locations surveyed, distinct behavioural profiles were observed in each wealth group in terms of saving, borrowing and lending practices with some regional variations. The findings of this study suggest that there are few aspects of the saving, borrowing, and lending behaviour of households which do not vary between wealth groups, although the degree of variation depends on the specific behaviour being studied. Clear differences in behaviour were almost always noted between the poor and wealthy groups. For example, a majority of wealthy households save money, while only a minority of poor households do so. This should not obscure the fact though that with regard to some factors, *most* households in the poor and wealthy group may be similar to one another, even if a small minority of one group behaves in a unique way. For example, even though more wealthy savers save using foreign currency than poor savers, both poor and wealthy savers typically save using cash. Furthermore, it is not solely poor households in the population who may struggle to meet their basic needs; for example, 21% of surveyed wealthy borrowers report borrowing to pay for food and other essential items.

Formal financial institutions are not accessible to many Iraqis. Often, formal financial institutions such as bank branches are simply not geographically accessible to households, particularly in rural areas and more isolated, less densely populated districts such as Sinjar and Qaim. Even when formal financial institutions are geographically accessible, they impose criteria to screen customers which exclude large sections of the Iraqi population, including women without regular employment and workers in the informal sector. Even when formal financial institutions might technically be *accessible* to households, they may not be *suitable* for households needs. Households saving for emergencies are likely to want to keep their cash on hand rather than in a bank while households whose lending behaviour consists of drawing multiple small loans to meet day-to-day expenses will not find credit products to facilitate this type of borrowing at formal financial institutions. Furthermore, commercial banks' use of interest can make their services *undesirable* to Muslims due to prohibition of usury in Islam. Households also lack trust in formal financial institutions. Given that Iraqi households appear to prefer their financial relationships to be interlinked with personal relationships, largely due to the flexibility that this provides, the impersonality and rigidity of formal financial institutions is unappealing.

Even in the absence of effective and accessible formal financial services, a substantial proportion of households in the population appear to save money. Saving appears all the more prevalent when households are asked about their saving behaviour over the course of the year rather than at a particular point in time, given that many households save only a few weeks or a few months during the year and not all the time. Savers typically save in case of an emergency and, perhaps partly for this reason, tend to save in the form of cash savings at home. A preference for cash savings could be responsible, however, for weak demand and underinvestment in local economies desperately needing to rebuild following the 2014-17 conflict. In this context, saving circles can present an effective means to keep cash moving in local economies, instead of sitting idle. Lack of income after meeting basic expenses appears to be the most significant barrier to saving for households in all wealth groups, but many middle wealth and wealthy households also report that lack of discipline is a relevant barrier.

Borrowing is common in the population — between individuals, between consumers and businesses, and between businesses. Households of all wealth groups typically borrow in order to meet basic needs such as food, shelter and healthcare. Wealthy households typically borrow to fund large one-time expenses such as house repairs while poor households mostly

borrow to pay for smaller day-to-day expenses such as food. Households tend to draw credit from friends and family and prefer borrowing from personal relations to borrowing from institutions. Despite these preferences, unmet demand appears to exist for Islamic banking options as well as for saving circles as credit mechanisms.

Lending is sometimes motivated by monetary incentives but other factors such as humanitarian giving also influence lending behaviors. Many households reported that they sometimes lend knowing that they will not get the money back, stating that they do so "out of kindness". Indicative evidence suggests that much of the lending in the target population may be as part of mutual support systems which exist to facilitate consumption smoothing between households with variable income. Businesses, on the other hand, lend with financial motivations, as is necessary given that many local economies operate on a cycle of debt and repayment which aligns with payment of employees' salaries at the beginning of the month. Businesses may also profit from lending without violating Islamic principles. For example, many businesses charge a markup on the price of goods when they sell on credit. They may also receive equity investments. Markups on goods sold on credit mean that vulnerable households may sometimes have to pay the most for goods, and that enabling households to pay for goods with cash up front may enable them to access better prices.

RECOMMENDATIONS

Programme - Short Term

- Encourage budgeting and saving practice among vulnerable HHs to enhance resilience through financial education.

  The lack of and variability in income is a key obstacle preventing households from saving, but lack of discipline and know-how are also factors. Consumption support, linkages to income generating opportunities and supplemental skills training should be provided to vulnerable households in order to encourage saving practices and resilience at the household level.

- Implement and strengthen community-based saving circles, e.g. Jamiyah/Silfa/ROSCA.

  Particularly in the absence of an effective formal financial sector, saving circles represent a useful and important means of facilitating saving, borrowing and lending in communities. The findings of this study suggest that saving circles overcome many of the barriers that make formal financial institutions inaccessible or unappealing to many households and businesses, including documentation requirements, lack of trust and interest on loans. Unmet demand appears to exist in the population for saving circles to be established. Furthermore, many respondents report that the activities of saving circles have been disrupted or suspended by the 2014-17 conflict and the COVID-19 pandemic. As well as working to build brand new saving circles, interventions could be targeted at rebuilding saving circles: supporting community saving circles which were disrupted by the conflict and by the COVID-19 pandemic to reestablish themselves.

- Consider pairing MPCA projects with a saving circle activity/project for recipients to create a holistic approach to boosting household resilience.

  The findings of this study suggest that even when households have sufficient income to save money, they may struggle to do so due to lack of discipline or know-how. Combining MPCA projects with saving circle activities could help ensure that when households have enough income to meet their basic needs, they have effective commitment devices and sufficient know-how to enable them to save surplus

income. An integrated approach of this sort would be in line with the CCI's graduation approach and the use of MPCA as not only an emergency relief assistance tool but also a stepping stone to long term development.

- Assist households with meeting the criteria necessary to access Formal Financial Institutions.

  This study has identified various screening criteria which prevent most Iraqi households and businesses from accessing formal financial institutions, including documentation requirements, proof of stable salary, collateral and guarantors. Programming could assist potential users of formal financial institutions with meeting some or all of these criteria, for example through legal assistance and counselling to help households obtain documentation and through schemes to guarantee loans for borrowers unable to find guarantors or collateral.

Programme - Medium-Long Term

- Restore trust of households in Formal Financial Institutions through information sharing, dialogue and opportunities for collaboration.

  Many households lack trust in formal financial institutions, largely due to widespread looting of banks on multiple occasions in Iraq's recent history. Prior to larger parts of the Iraqi population using the financial services offered by formal financial institutions, trust will need to be rebuilt between households and formal financial institutions. Methods to do this could include spotlighting community champions; engaging community leaders and role models; and visibility of the positive work of formal financial institutions.

- Raise awareness with suppliers about the suitability and desirability issues with products currently on offer.

  This study has identified several issues with the suitability and desirability of formal financial services currently on offer relative to households' and businesses' needs and preferences. Services offered by formal financial institutions are not suitable to the needs of most households in that they are inflexible and do not (or cannot) cater to the needs of households saving and borrowing in relatively small quantities and on a touch-and-go basis. Formal financial services are also undesirable to many potential borrowers as they typically involve interest, which is religiously unacceptable to many in the population. In order to improve uptake of formal financial services, institutions will need to address these issues.

- Pilot a credit rating system through reliable participation in saving circles.

  Many households are excluded from accessing formal financial institutions because they cannot pass the screening criteria that formal financial institutions require in order to trust their customers. Given this, the reliable participation of certain households and businesses in saving circles could be leveraged to encourage formal financial institutions to trust them. For example, adapted and/or informal credit scores could be constructed in partnership with formal financial institutions based on individuals› regular and reliable contributions to informal saving circles. This could provide a bridge from participation in saving circles to participation in formal financial services for some households and businesses.

Formal Financial Institutions (including MFIs), Government of Iraq and Donors

- Rebuild trust with consumers by collaborating with NGOs on support to community-based saving and borrowing schemes, awareness raising and training on Islamic financing.

  By undertaking such initiatives, formal financial institutions can work to build trust with potential users of formal financial services in communities where trust in such services is low, as discussed above.

- Pilot an informal credit rating system that can be based on participants' reliable engagement in participatory saving circles (as discussed above).

- Explore and provide, where possible, products that are accessible, suitable and desirable to consumers.

  As discussed above, formal financial services are currently inaccessible, unsuitable and/or undesirable to large parts of the Iraqi population. In order to encourage uptake of formal financial services, formal financial institutions will need to offer services which do not suffer from these issues. Formal financial institutions could gain knowledge and build trust by coordination with current informal providers of credit in communities, such as shop owners and saving circles.

- Investigate opportunities to mitigate risk of lending to high-risk borrowers for formal financial institutions, for example through the government, development banks or donors willing to support financial inclusion by guaranteeing loans.

  As discussed above, formal financial institutions often require applicants for bank accounts and loans to provide proof of stable employment, collateral or a guarantor, excluding much of the Iraqi population from access to formal financial services. Potential borrowers who are unable to meet these requirements on their own may benefit from programmes led by the government or NGOs to guarantee loans (as MoLSA currently does in some cases).

- Consider Sinjar to be a priority location for financial inclusion interventions.

  The findings of this study suggest that Sinjar lags other districts not only in availability of formal financial services, but also in availability of community saving mechanisms such as saving circles.

Further Research

This report has identified several areas in which further research may be useful in light of the findings of this study. These include:

- Research to investigate whether the differences in wealth between returnee and remainee households identified in this study (with the former group being wealthier than the latter group) are also true in the Iraqi population more broadly.
- Research to understand whether or not female recipients of MPCA are more likely to allocate transfers to saving than male recipients, and, more broadly, whether female recipients are more likely to spend MPCA in ways conducive to building resilient livelihoods than male recipients. If so, an argument may exist for gender-targeting of MPCA.
- Research to understand to what extent exploitative lending occurs in the Iraqi population, both to households and to businesses, and what its impacts might be on borrowers.

- Research to understand how common it is for households purchasing goods on credit to pay a higher price relative to households paying upfront and which goods this applies to (e.g. only large purchases, or also day-to-day necessities). If this form of implicit interest for purchases is widespread, vulnerable households needing to buy goods on credit may be paying higher prices for these goods than the rest of the population. If this is the case, MPCA could help vulnerable households access lower prices.

(Further, more general, recommendations on proposed programming techniques are included in Annex C).

ANNEX A: BIBLIOGRAPHY

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ANNEX B: WEALTH BREAKDOWN EXERCISE FOR URBAN AREAS

STAGE 1: DEFINING WEALTH BREAKDOWN VARIABLES (FEBRUARY 2021)

Objectives

The wealth breakdown exercise described below was tailored to accomplish three objectives:

1. Gain an understanding of the number of distinct wealth groups present in urban areas surveyed during second-round data-collection for this study and their population proportions.
2. Generate a profile for a typical household within each wealth group to illustrate the concepts used to define and analyse different wealth groups during this study.
3. Suggest a feasible means of classifying individual households surveyed during second-round data-collection into wealth groups in order to enable the addition of an ordinal variable, 'household wealth group', to the datasets obtained from household surveys. This will ensure that 'household wealth group' can be used as an independent variable in subsequent analysis of household saving, borrowing and lending behaviour in this study.

Pre-Analysis Methodology

Relative to the Household Economy Analysis (HEA) Approach

The methodology used in this analysis is based on an adaptation of the Household Economy Analysis (HEA) approach to categorising households within particular livelihood zones (defined as 'geographical areas where people broadly share the same livelihood options and access to markets') into distinct wealth groups. The methodology used here is similar to the HEA approach in that one of its objectives is, like the HEA, to gain an understanding of the number of distinct wealth groups present in an area and the defining characteristics of each of these. This methodology is also similar to the HEA approach in that it is based on evidence gained from interviews with community members within the geographical areas being studied.

There are two notable differences between the methodology used here and the HEA approach. Firstly, the standard HEA approach defines wealth groups ultimately in relation to their food security. The definition of 'wealth' used here, however, refers to households' wider capacity to draw upon economic and social resources to enjoy a high standard of living. Secondly and most importantly, whereas the HEA stops at generating a representation of a typical household within each activity, this methodology also seeks a means to classify any specific individual household, which may hold some characteristics typical of one wealth group and others of another, into its relevant wealth group. Steps to achieve this are discussed in the 'classification' section below.

Data-collection

SREO selected three communities in Mosul and three in Ramadi to collect the 12 KIIs with community members and leaders. These are listed below.

Al Mosul city:

1. Al Mothanna neighbourhood (better off)
2. Algeria neighbourhood (middle)
3. Al Tahrer neighbourhood (poor / very poor)

Al Ramadi city:

1. Al Warar neighbourhood (better off)
2. Al Jomhory neighbourhood (middle)
3. Al Tash neighbourhood (poor/very poor)

SREO also conducted five consultative interviews, using the same interview tools, with academics from the Economics Department of the University of Mosul and the University of Anbar.

Data Analysis Methodology and Findings

Wealth Groups Present

Firstly, answers to the question 'How many different wealth groups (groups with different economic situations) do you think exist in your community?' were examined to determine how many different wealth groups exist within the two cities studied. Although one respondent (an economics professor at the University of Anbar) stated that he believes there are 'six or seven' different wealth groups exist in his community, all other respondents used the terminology of 'poor', 'middle' and 'rich' to describe wealth. So, the analysis precedes with these three categories defined as the relevant wealth groups to consider.

Urban stratification of wealth groups was carried out using data from the KIIs. Although the KII discussion of the relative size of the wealth groups in each city is very rough, based on assigning a point to a wealth group every time a KI referred to it as a component part of a majority when asked (e.g. ‹majority are rich and middle›) and taking percentages of total points for each group, the percentages in the cities are as follows:

- Mosul: 36% poor, 45% middle, 18% rich;
- Ramadi: 27% poor, 45% middle, 27%;

Averaging these numbers gives: 31.5% poor, 45% middle, 22.5% rich.

The results are relatively consistent between both cities and are also consistent with what would be expected. In the absence of reliable data on wealth group sizes in the urban areas studied here, the above data was used to determine a stratification of cities as follows: 31.5% poor, 45% middle, 22.5% rich. (Rural areas were stratified using Oxfam HEA Assessment data).

Distinguishing Features

In order to identify the distinguishing characteristics of these three wealth groups, the KII transcripts were then coded according to the appearance of 'wealth group comparisons' made by each respondent.

A 'wealth group comparison' represents any occasion on which a respondent drew an explicit comparison between two or more wealth groups based on their differing values for a particular variable. Although respondents were prompted to draw wealth group comparisons on a range of variables, respondents only chose to respond with explicit comparisons between wealth groups for some variables, suggesting that the most frequently compared variables are the most important to respondents for distinguishing between wealth groups.

To ensure that only comparisons respondents were absolutely explicit (i.e. convinced) about are registered as 'wealth group comparisons', implied comparisons do not qualify as wealth group comparisons (For example, 'wealthy people own land' does not qualify as a comparison, whereas 'wealthy people own *more* land' does).

Furthermore, some of these wealth group comparisons were made in response to questions about a specific variable, while others were provided as responses to open-ended questions asking respondents what they perceive to be the distinguishing features between wealth groups. So, a note was made whenever a respondent made a wealth group comparison about a particular variable 'organically' (i.e. in response to an open-ended question). Finally, notes were made on the frequency with which economics specialists drew wealth group comparisons based on each variable (in case these were needed as a tie-breaker, which they weren't).

The variable 'income amount' is absent from this analysis as it is assumed that where respondents did not mention income amount as a determinant of wealth, they omitted this because they believed it to be obvious. The variable 'income amount' is returned to in the 'Classification' section.

The results of this analysis are displayed in the table below, which shows the number of wealth group comparisons that were made for respondents in each city for each variable in total, organically and by an economist. Cells with a value of zero are formatted red.

	Total (Mosul)	Total (Ramadi)	Organic (Mosul)	Organic (Ramadi)	Specialists (Mosul)	Specialists (Ramadi)
Clothing	0	0	2	0	1	0
Food source	6	3	3	0	3	2
Land ownership	6	6	5	2	3	2
Education	6	2	1	0	3	0
Income source	8	7	3	5	3	2
Number of people sharing household	3	1	2	0	2	0
Number of bedrooms	6	1	0	0	3	0
Number of earners	5	0	0	0	3	0
Dwelling type	6	4	1	0	3	1
Dwelling location	5	4	0	0	2	0
Water source	4	4	0	0	2	1
Internet access	1	2	0	0	1	0
Female income	3	1	0	0	2	0
Residency status	2	3	0	0	2	2
Ethnicity/ religion	0	1	0	0	0	1
Assets	9	8	6	3	3	2
Social networks	5	3	1	0	3	1
Exposure to shocks	4	4	0	0	3	1

As can be seen from the table, the most frequently recurring factors are common between Mosul and Ramadi.

A limited set of variables were then extracted from this table, according to the criteria below, for consideration as ones which can be used to distinguish between wealth groups (with intentionally broad coverage at this stage):

- Appears as organically at least once each city.
    - Land ownership.
    - Income source.
    - Asset ownership.
        - Car ownership.
        - Air conditioner ownership.
- Appears in over 50% of interviews.
    - Food source.
    - Dwelling type.
    - Dwelling location.
- Appears organically at least once and appears in over 25% of interviews.
    - Education.
    - Social networks.

In order to qualify as a variable that can be used to distinguish between urban wealth groups, a variable had to pass the further criterion that it was discussed in a consistent way amongst the different respondents who referred to it. Consistency is firstly required in the direction of correlation respondents give between the variable at hand and household wealth. Here, any variable for which more than one respondent stated a direction of correlation opposite to the group, was to be removed. All variables survived this.

Finally, in order to be truly useful for characterising wealth groups and classifying households, a variable needed consistency not only in the direction of correlation with wealth, but in the precise values different respondents assigned it for different wealth groups. Consistency here was defined as more than 50% of respondents who drew the comparison choosing a certain value for a certain variable for a certain wealth group (e.g. all respondents agreed that poor households typically rent their houses, but an insufficient number of respondents agreed on precisely what types of dwellings, like row houses vs apartments, different wealth groups occupy).

The results of this analysis are shown in the table below, which shows the typical values of distinguishing variables for households in different wealth groups (and mirrors the corresponding table for rural areas in Oxfam's 2019 HEA report).

Income ranges have also been added to the table for each wealth group. The figures bounding the middle group were calculated by, for the lower bound, averaging the upper bound for the poor group's income stated by each respondent and, for the upper bound, by averaging the lower bound for the rich group's income. One outlier, who stated bounds double anybody else's, was removed from consideration. Income bounds for the two cities were averaged jointly because separate averaging did not yield widely differing results (350,000 IQD in both Mosul and Ramadi for the upper bound of the poor group, and 1,100,000 and 1,800,000 respectively for the lower bound of the rich group). It is important to note though that given the small sample size and high variation in values, confidence intervals for these estimates are almost too wide for them to be useful. The 'Classification' section discusses further prospects

for estimating income bounds and overcoming difficulties in making estimates.

Classification

	Land ownership	Income source	Dwelling location	Food source	Education	Social networks	Assets: Car	Assets: Air conditioner	Monthly Income
Poor	No property	Daily wage / no income, reliant on social support	Poor neighbourhoods	Markets / PDS	Primary / None	Other poor households	No car	No air conditioner	Up to 350,000 IQD
Middle	One property	Regular salary (clerical position)	Middle/poor neighbourhoods	Markets	Secondary	Other middle households	One car or no car	Air conditioner	350,000-1,400,000 IQD
Wealthy	One or more properties	Business / regular salary (higher skilled position)	Wealthy neighbourhoods	Markets	University degree	Other wealthy households	One or more cars	Air conditioner	1,400,000 IQD and above

The sections thus far have set out a profile for a typical poor, middle and wealthy household in the cities of Mosul and Ramadi. Given, however, that many households can be expected to simultaneously take values for different variables which are typical of different wealth groups, it is necessary to set out a strategy for ensuring that 'wealth' and 'wealth group' can be included in the analysis as meaningful independent variables. Although formulation of such a strategy will be better informed once survey data has been collected (as long as the right questions have been asked), some thoughts are provided below on possible strategies for classification.

Firstly, it will be necessary to ask survey respondents questions which can facilitate their classification into wealth groups. The refined set of variables in the table above can provide the basis for these questions, as set out in the table below (respondents are not asked about their neighbourhood as SREO field researchers have already chosen neighbourhoods based on wealth groups). Each of these questions, firstly, distinguishes between at least two different wealth groups and, secondly, is relatively intuitive to answer (as is evidenced by the successful responses in the KIIs).

Wealth classification:

What is your <u>main</u> source of income?	**Daily wage / casual or temporary labour** **Salaried labour / regular or permanent employment** **Loans / debt / credit** **Income from business** **Safety nets** **No primary source of income** **Other, please specify** (skip logic)	**Wealth classification**
Please select the employment sector:	**Government** **Skilled service (private sector)** **Transport sector** **Skilled Wage Labour** **Unskilled Wage Labour** **Business owner** **Retired** **Unemployed** **Other, please specify** (skip logic)	**Wealth classification**
What is your typical monthly income?	Integer	**Wealth classification**

Do you own any property? skip logic: How many properties do you own? (Integer)	Yes/no	**Wealth classification**
What is the highest level of schooling a member of your household has completed?	**Primary** **Secondary** **University (Bachelors)** **Technical Institute** **None** **Other, please specify** (skip logic)	**Wealth classification**
Where do you obtain your food? (select multiple)	**I am reliant on PDS** **Small shops** **Markets** **Supermarkets** **Other, please specify** (skip logic)	**Wealth classification**
What types of households are included in your social networks? (family, friends, acquaintances etc.) (select multiple)	**Households who are wealthy** **Households whose wealth is middle** **Households who are poor**	**Wealth classification**
Do you own a car? skip logic: How many cars do you own?	**Yes/no**	**Wealth classification**
Do you own an air conditioner? skip logic: If yes, how many?	**Yes/no**	**Wealth classification**
Relative to your city, which wealth group do you view yourself as belonging to?	**Wealthy group** **Middle group** **Poor group**	**Wealth classification**

During data analysis for the main component of the study, the answers to the above questions were analysed for all households in the sample to refine the definitions of different wealth groups in different locations and to produce a system for classifying households based on wealth group.

STAGE 2: REFINING URBAN WEALTH GROUP DEFINITIONS AND CLASSIFYING HOUSEHOLDS (MARCH 2021)

Refining Urban Wealth Group Characteristics

The survey data from the main phase of data collection was used to gain further insight into the values that the nine distinguishing variables identified in Stage 1 of the wealth breakdown process tend to take within different wealth groups in different locations. For each of the 772 survey respondents (barring small numbers of deleted outliers), data is available for each of the nine distinguishing variables. Furthermore, survey respondents were asked to self-report the wealth group that their household belongs to. Although 100 respondents answered 'Prefer not to say' when asked about their wealth group (78 located in Ramadi), each of the 12 (four cities times three wealth groups) city x wealth group categories is populated by at least nine respondents. **The tables below show the typical characteristics of households in each (self-classified) wealth group in each city.**

In the case of binary and categorical response variables, the 'typical' values for a wealth group are defined as any values that over 50% of responses take, or, if no such value is available, the two most frequently selected values. For the income ranges , the poor-middle and middle-rich thresholds were calculated, respectively, by taking the mean of the third quartile of the poor group and the first quartile of the middle group and by taking the mean of the third quartile of the middle group and the first quartile of the rich group.

Broadly speaking, these tables mirror the wealth group characteristics suggested by the initial wealth breakdown exercise. This consistency suggests that the findings are robust. Furthermore, the fact that the variables tend to take on distinguishing values for poor, middle and rich households in Qaim and Sinjar suggests that, even though the nine distinguishing variables were identified using KIIs from only Mosul and Ramadi, they are also useful for distinguishing between wealth groups in Qaim and Sinjar.

Figure 3: Urban Mosul wealth breakdown

Mosul	Land ownership	Income source	Dwelling location	Food source	Education	Social networks	Assets: Car	Assets: Air conditioner	Monthly Income
Poor	No property	Daily wage	Poor neighbourhoods	Markets	Primary / Intermediate	Poor households	No car	No air conditioner	Up to 400,000 IQD
Middle	One property	Daily wage	Middle/poor neighbourhoods	Markets / Supermarkets	High school / University	Middle households	One car	One air conditioner	400,000-662,500 IQD
Wealthy	One property	Regular salary	Wealthy neighbourhoods	Markets / Supermarkets	University	Wealthy households	One car	Two or more air conditioners	662,500 IQD and above

Figure 4: Urban Ramadi wealth breakdown

Ramadi	Land ownership	Income source	Dwelling location	Food source	Education	Social networks	Assets: Car	Assets: Air conditioner	Monthly Income
Poor	One property	Daily wage / Regular salary	Poor neighbourhoods	PDS / Small shops	Intermediate / High school	Poor households	No car	Two air conditioners	Up to 475,000 IQD
Middle	One property	Regular salary	Middle/poor neighbourhoods	PDS / Small shops / Markets	University	Poor households / Middle households	One car	Two air conditioners	475,000-1,050,000 IQD
Wealthy	Two or more properties	Regular salary	Wealthy neighbourhoods	Markets / Supermarkets	University	Middle households	One car	Three or more air conditioners	1,050,000 IQD and above

Figure 5: Urban Sinjar wealth breakdown

Sinjar	Land ownership	Income source	Dwelling location	Food source	Education	Social networks	Assets: Car	Assets: Air conditioner	Monthly Income
Poor	One property	Daily wage	Poor neighbourhoods	Small shops	Primary / Intermediate	Poor households	No car	No air conditioner	Up to 328,750 IQD
Middle	One property	Daily wage / Regular salary	Middle/poor neighbourhoods	Small shops / Markets	Intermediate / High school	Middle households	One car	No air conditioner	328,750-1,375,000 IQD
Wealthy	One property	Regular salary / Business	Wealthy neighbourhoods	Small shops / Markets / Supermarkets	High school / University	Wealthy households	One car	No air conditioner	1,375,000 IQD and above

Figure 6: Urban Qaim wealth breakdown

Qaim	Land ownership	Income source	Dwelling location	Food source	Education	Social networks	Assets: Car	Assets: Air conditioner	Monthly Income
Poor	One property	Daily wage / Regular salary	Poor neighbourhoods	PDS / Small shops / Markets	No education / Primary	Poor households / Middle households	No car	No air conditioner	Up to 561,250 IQD
Middle	One property	Regular salary	Middle/poor neighbourhoods	PDS / Small shops / Markets	University	Poor households / Middle households / Wealthy households	One car	Two or more air conditioners	561,250-1,363,750 IQD
Wealthy	One property	Regular salary	Wealthy neighbourhoods	PDS / Small shops / Markets / Supermarkets	University	Poor households / Middle households / Wealthy households	One car	Two or more air conditioners	1,363,750 IQD and above

After defining wealth groups in each city, researchers assigned and classified households into each group.

Wealth Classification of Households

This study used self-reported household income as the primary method for classifying households into different wealth groups. The income ranges used to classify households as “poor”, “middle” and “rich” in each of the six regions are represented in the tables in the previous section. For the purposes of consistency of typology across regions, the two intermediate wealth groups in rural areas (i.e. the “Poor” and “Middle” groups) have been merged to produce a single “middle” group. Although this consolidation of wealth groups means some of the subtlety provided by the HEA Assessment is lost, it ensures that households in all six regions can be classified according to a common “poor”, “middle”, “wealthy” typology.

The decision to classify households according to income was made following consideration of the extent to which the income-based classification generated by this methodology aligns with households’ self-classification into different wealth groups. The table below shows the number of households at the intersection of each self-classification wealth group and each income-classified wealth group. The majority of households in any given self-classified wealth group are placed in the same wealth group by the SREO income-based classification. Nonetheless, many households move wealth group as a result of their wealth group being defined by the standards of the whole sample from their city, rather than their personal perceptions alone.

Number of households	Column: Self-classification				
Row: SREO classification	Poor	Middle	Wealthy	Prefer not to say	Grand Total
Poor	120	54	10	57	241
Middle	49	215	22	15	301
Wealthy	14	103	81	28	226
Deleted values		2	2		4
Grand Total	**183**	**374**	**115**	**100**	**772**

One advantage of using income to classify households into wealth groups instead of using household self-reports of wealth group affiliation to achieve this goal is that using income, which is available for all households, allows for all 100 households who declined to report their wealth group to also be categorized. Another advantage of using income for wealth group classification is that income represents one of very few household characteristics which is relevant to defining wealth groups in both rural and urban areas. So, using income to classify wealth groups means that rural and urban wealth groups can be understood in similar conceptual terms. Income is widely used in the literature on development and poverty as a measure of a households’ economic well-being.

In the same way that income ranges are used to classify a household’s wealth group when household wealth group is used as a discrete independent variable, income is used to proxy a household’s wealth group when household wealth is used as a continuous, independent variable in the analysis.

ANNEX C: PROPOSED PROGRAMMING TECHNIQUES

- Provide Management Advice to poorer households with an appropriate and suitable business such as Management Advice for Family Farms (MAFF) for household economics and saving management in rural areas. MAFF is a method used to facilitate decision-making. Previous studies conducted by SREO in the intervention areas have shown the need for farming households to improve the technical, financial and planning aspects of farm management. It has been formulated and developed in West and Central Africa since the mid 90's for better addressing agriculture producers' needs, promoting innovation diffusion and improvement of farmers' practices yet can be expanded to a wide range of economic enterprises. It has yielded positive results for farmers› groups involved in that process. Such an approach has not been disseminated in Iraq yet although there is similar context overlap and potential. MAFF is based on regular discussions between an advisor and the beneficiaries over a long period. It encourages farmers to manage the family farm like a small business: focusing on improved management of product stocks, improved treasury planning, precision input usage, innovation in crop selection, investment and appropriateness of available credit and effective marketing. It is a learning method (training, follow up, farmers' exchange visits etc.) and a decision making support mechanism (technical and economic analysis, cropping practices assessment etc.) which rely on basic management tools. It builds upon local knowledge of participants and existing information sharing networks amongst the rural communities. Exchanges between those benefiting from the Management Advice Support on their results and lessons learned should be encouraged through regular meetings (training, field visits, on-farm experiments, etc.), as these exchanges stimulate strong dynamics. CCI Oxfam could develop a pro-poor, participative and site specific (for Ninewa and Anbar) approach enabling vulnerable smallholders to project themselves into the future with simple and handy tools. It should further allow smallholders to avoid or prepare for recurrent adverse events and decrease their dependency toward dominant stakeholders. This would be in line with the CCI's graduation approach helping the right households transition with emergency humanitarian assistance to long-term livelihood development aid.

- Conduct a Participatory Agriculture Resource Audit (PARA) in rural villages on access to appropriate social and physical assets as well as agro-processing and storage facilities for identifying priorities and potentialities toward a development of good quality agriculture products. As communities in the project area are diverse in size, agro-ecological environment and market access, a participatory agriculture resource audit (PARA) should be performed together with producers as well as village level processors, in order to tailor the specifics of such interventions to individual communities. At the producer level, further intervention could work together with farmers to identify and map their productive/financial and social resources and prioritize key areas for intervention. Current village assets (access to cash, credit, savings, inputs) as well as productive assets, including basic production (average yield of the village, quality of production, etc.), production assets (dams/levees, production equipment, irrigation equipment, etc.), processing (access to/quality of threshers, dryers, storage facilities and access and distance to nearby processors), transport and infrastructure should be analysed. The current state of social organization (groups, networks, social relationships within and outside the village, confidence, and willingness to work for the common good) and trade (number of traders and large processors residing in and/or performing business), should also be mapped and analyzed by the community together with project staff. During the process, the community should be encouraged to examine potential opportunities within and outside the village to address current issues. Further intervention should include field trips within the governorate for village representatives to search for potential market links (ex-links to credit, input/asset supply and/or to purchasers/markets), as well as to better understand the value chains. Once the PARA is completed, the individual community, together with project staff, should prioritize specific issues (e.g. only one trader interacting with the village) and make an action

plan to address these issues (e.g. identify and begin discussion with potential new traders). The action plan should form the guideline for further project intervention at the village level and be reviewed together with producers annually. Where preset, village level agro processors should also be included in the PARA and should self-evaluate with project staff their physical assets/processing ability (mill type, size and output capacity, storage capacity, losses from milling and storage, transport equipment, etc.) and capital (running costs vs. income, access to cash, credit and savings) and social assets (clientele pool, networks, market/buyer access, business and social relationships, etc.). During the process, the agro processors should be encouraged to examine potential opportunities within and outside the village to address current issues. Further programs could use this information to select relevant agro-processors to receive project assistance for upgrades.

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